FINANCIAL TIMES

World Business Newspaper

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Karadzic offers to resign if his state gains recognition

Bosnian Serb leader Radovan Karadzic, wanted on war crimes charges, offered to resign only if the international community met conditions for the recognition of his mini-state, Republika Srpska. He made clear that he would stand in the Bosnian elections if his demands were not met. Page 14

Malaysia to expand exchange: Singapore's role as the region's financial hub is facing a challenge from Malaysia, which plans to allow companies from other countries to list shares on its main stock exchange. Page 14

Fiat to sell off British subsidiary: Italian vehicle and industrial group Fiat is to sell off a minority stake in New Holland, its London-based agricultural and construction equipment subsidiary, by the end of the year. Page 15

Lloyd's plan wins Names backing: A group representing 2,000 loss-making Lloyd's of London Names voted unanimously to recommend that members accept Lloyd's recovery plan – a decisive step towards ending legal action at the insurance market. Page 8

Air France reported its first annual operating profit of the 1990s but recorded a net loss of nearly FFr3bn ($570m) after provisions for a voluntary severance scheme and other labour measures. Page 15

Thousands attend Papandreou funeral: Tens of thousands of Greeks gathered for the funeral of Andreas Papandreou, the former prime minister and founder of the Panhellenic Socialist Movement, who died on Sunday. Page 2

General Motors, the world's largest vehicle maker, and the Polish government have agreed a DM450m ($296m) plan to build a car assembly plant near Katowice, southern Poland. Page 7

German telecoms agreement: Germany's parliament agreed on a formula to regulate telecommunications after they are liberalised in 1998 but private operators complained the government was not doing enough to ensure fair play. Page 2

Zyuganov alleges Kremlin bias: The Communist candidate in Russia's presidential election, Gennady Zyuganov, accused the Kremlin of breaking the law to ensure a victory for Boris Yeltsin in next week's run-off. Page 3

Seoul spurns trade pleas: South Korea is not expected to respond soon to US and EU pleas to open its car and telecom markets despite its growing trade deficit. Page 7

Local elections begin in KwaZulu-Natal

Voters in the black township of Umlazi south of Durban queue to cast their votes in local elections in South Africa's KwaZulu-Natal. The province has suffered years of political violence and voting had been delayed three times, but yesterday's polls drew towards a close without incident.

IMF head urges bigger role for unions: International Monetary Fund managing director Michel Camdessus urged trade unions to contribute towards the growth of the global economy. Page 7

Philip Morris ends Dutch campaign: US cigarette maker Philip Morris ended in the Netherlands its controversial advertising claims that passive smoking was less damaging to health than eating biscuits or drinking water. Page 3

Senna manslaughter charge call: An Italian prosecutor has asked for Formula One team manager Frank Williams to be tried for alleged manslaughter over the death of world champion driver Ayrton Senna in 1994.

Czech Republic through to Euro 96 final: France's unbeaten run of 27 games ended in the Euro 96 semi-finals as the Czech Republic beat them 6-5 on penalties after a goalless game at Manchester. They will play the winner of the second semi-final between England and Germany in Sunday's final at London.

■ STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	5,685.02	(-33.25)
NASDAQ Composite	1,153.48	(-19.18)
Europe and Far East		
CAC40	2,113.28	(-5.15)
DAX	2,573.69	(+0.73)
FT-SE 100	3,695.5	(+16.0)
Nikkei	22,666.88	(+89.63)

■ US LUNCHTIME RATES

Federal Funds	5⅛%
3-mth Treas Bills: Yld	5.228%
Long Bond	85⅔
Yield	7.048%

■ OTHER RATES

UK: 3-mo Interbank	5⅞%	(5¾%)
UK: 10 yr Gilt	98⅜	(96½)
France: 10 yr OAT	104.75	(104.74)
Germany: 10 yr Bund	97.76	(97.73)
Japan: 10 yr JGB	98.1226	(98.0874)

■ NORTH SEA OIL (Argus)

Brent Dated	$18.51	(18.37)

■ GOLD

New York Comex		
(Aug)	$384.7	(385.6)
London:		
close	$383.5	(384.9)

■ DOLLAR

New York: lunchtime		
£	1.5428	
DM	1.5257	
FFr	5.1595	
SFr	1.258	
Y	109.35	
London:		
£	1.5425	(1.5409)
DM	1.5287	(1.5322)
FFr	5.1716	(5.1916)
SFr	1.2595	(1.2636)
Y	109.520	(109.085)

■ STERLING

DM	2.3579	(2.3809)
Tokyo $ close:	Y 109.436	

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.85	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc60	India	Rs75	Nigeria	Naira90	Spain	Pta250
Denmark	DKr18	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£85.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl5.50	Tunisia	Din1.750
France	FFr11.50	Kuwait	Fils.650	Portugal (mTand)	Esc240	Turkey	L80,000
		Lebanon	LL3,000			UAE	Dh12.00

Saudi Arabia blast kills 19 Americans and seriously injures another 64

Clinton to make terrorism top priority at G7 talks

By Patti Waldmeir in Washington and Roula Khalaf in London

President Bill Clinton yesterday vowed to track down those responsible for Tuesday's truck bombing of a compound housing US Air Force personnel in Saudi Arabia.

Mr Clinton said he would make the issue of international terrorism his "first order of business" at the Group of Seven summit in Lyons which begins today.

A previously unknown group calling itself the Legion of the Martyr Abdullah al-Hazaifi telephoned a London-based Arabic newspaper last night to claim responsibility and vowed to make further attacks unless foreign troops were withdrawn from Saudi Arabia.

The blast is not expected to affect oil supplies from the world's largest exporter. After an initial rise early yesterday, oil markets had settled back by the end of the day.

The Pentagon said the truck bomb blast had left 19 Americans dead and 64 seriously injured. Saudi Arabia said 389 people were wounded in the blast, the second attack against an American target in eight months. A car bomb explosion last November outside a US-run intelligence centre in the Saudi capital of Riyadh killed seven people.

Tuesday's bomb, which left a crater 11 metres deep and 26 metres wide on the street outside the compound, was estimated to contain as much as 2½ tons of explosives. It shattered the front half of the eight-storey building housing American soldiers, which is near the building that was the main centre for allied air operations during the Gulf war.

US officials said the bombing followed "a series of suspicious incidents" which led to increased security measures at the base. The incidents included cars driving slowly by, or stopping briefly, which defence department officials said were considered "low-level" threats.

Two people were said to have fled the vehicle before the explosion. There were reports that Saudi Arabia was offering a $3m reward for information leading to the arrest of the perpetrators.

Although Israel quickly accused Iran, analysts said Islamic radicals opposed to the US presence in Saudi Arabia and who were responsible for last year's blast were more likely to be behind the attack. The US embassy in Riyadh received threats of reprisals in anonymous phone calls after four radical Islamic Saudis were executed last month for their involvement in the November bombing. Saudi dissidents in London yesterday also assumed the attack was the work of violent Islamic groups.

Analysts said the blast raised two concerns: that a strong backlash by the Saudi government would fuel more violence there; and that the deaths of US personnel could lead to a scaling back of the US forces in Saudi Arabia, who number up to an estimated 30,000 on a rotating basis.

Mr Clinton said he expected "very practical results" from Lyons in the form of proposals to combat terrorism. "Defeating these organised forces of destruction is one of the most important challenges our country faces at the end of this century," he said. He ordered flags at all US federal facilities to be flown at half-mast.

But Mr Clinton said the bombing would not deter the US from maintaining its military presence in the area. "We have worked in close partnership with the Saudis for a long time, since the presidency of Franklin Roosevelt, and I think it would be a mistake for the US to basically change its mission because of this." He said

Continued on Page 14

President Bill Clinton said he would make the issue of terrorism his "first order of business" at today's Group of Seven summit in the wake of the Saudi Arabia bomb which killed 19 Americans Picture: Reuter

VW halts expansion in east as Brussels cuts aid

By Wolfgang Münchau in Frankfurt and Neil Buckley in Brussels

Volkswagen yesterday shelved all investment plans in eastern Germany after the European Commission slashed a state aid package for a car plant by DM241m ($156m).

VW's move came after the Commission decided to approve only DM539m in aid under rules allowing state subsidies to be paid in European Union regions with low living standards and high unemployment.

It blocked the rest because it considered that only part of VW's investment at its plants at Mosel and Chemnitz in Saxony was greenfield development, for which a higher rate of state aid is allowed.

The decision has caused outrage in eastern Germany where it was seen as an attempt to hinder economic reconstruction.

"I fear the decision will be seen as a potential signal by investors to bypass Saxony and the other east German states," said Mr Kajo Schommer, economics minister of Saxony. "Decisions by the Commission, which so clearly hinder economic reconstruction, will not exactly serve to strengthen the European ideal among eastern Germans."

VW said the rejection came against a backdrop of a real unemployment rate in eastern Germany of 25 per cent and was especially surprising considering that Volkswagen had planned to help reconstruct Saxony and create 2,200 new jobs, including 1,200 in supplier industries.

A spokesman for Mr Karel Van Miert, the EU competition commissioner, said part of the investment, and part of the aid supporting the investment, could not be accepted by the Commission using the normal rules, because part of it could not be claimed to be a greenfield concept.

The Commission added that any expansion of Volkswagen's capacity would have a "negative impact" on the car market in western Europe, which is already suffering from over-capacity. It had therefore decided not to

Continued on Page 14

Coutts to focus service on wealthy clients

By George Graham in London

Coutts & Co, the UK private banking arm of the NatWest group, is to overhaul its structure radically as part of a strategy to focus more on services to the wealthy.

The reorganisation will result in 170 job losses this year, about a 10th of the bank's UK workforce, including 62 compulsory redundancies. Another 100 to 170 jobs could go next year.

Mr Herschel Post, chief executive, said the bank was not trying to weed out its many middle-class clients who value the prestige of a current account at Coutts, but these clients would no longer be the bank's main concern.

Mr Post said Coutts had developed over the past 20 years into an upmarket retail bank, providing cheque account and credit services that were open to competition from lower cost financial services groups.

"We felt uncomfortable with the idea of Coutts concentrating primarily on what I would call red-carpet retail banking," he said.

Like a number of Swiss private banks which have recently restructured their operations, Coutts has found that most of its profits come from the small percentage of clients who come to it for a full range of financial and investment services, rather than from the majority who merely want basic bank accounts.

But competition to manage the money of the wealthy is increasing, as the main street banks fight it out with stockbrokers and traditional private banks.

Coutts is much more profitable in the UK than overseas. Coutts & Co, the UK arm, improved profits by 5 per cent last year to £42m ($64m) before tax, while the entire Coutts group saw pre-tax profits fall 19 per cent to £56m.

Mr Post said the bank would reorganise its private banking operations into 30 teams, each headed by a senior manager and handling 75-100 clients.

All senior managers were asked to step down and face reselection by Mr Post and their peers. Eight top-level managers will be leaving as a result of this process. More bankers are likely to leave because they are unwilling or unable to pass all three levels of the Securities Institute's exams, which Coutts will insist on in future.

The Coutts restructuring parallels a reorganisation of its parent NatWest's UK retail bank network, which is expected to result in 350 branch closures and probably thousands of job cuts.

Bank shifts towards Swiss model, Page 8

Setback for Olivetti hopes as chief prepares to resign

By Andrew Hill in Turin

Mr Corrado Passera is poised to resign as chief executive of Olivetti, the Italian computer group, and head of its troubled personal computer subsidiary. His departure would deal a grave blow to the company's image and plans for recovery.

Mr Passera has not yet stepped down, but Olivetti yesterday put out an uncharacteristically brief and vague statement from Mr Carlo De Benedetti, chairman and joint chief executive, in which it indicated that Mr Passera had received an alternative job offer. Industry sources said he was certain to leave.

Analysts said the news sent the worst possible signal about the prospects for Olivetti's recovery strategy, which was drawn up by Mr Passera and Mr De Benedetti. Twenty-four hours earlier, Olivetti had denied growing rumours of the impending resignation of Mr Passera, whom Mr De Benedetti last year indicated would succeed him as chairman.

Olivetti is struggling to pull out of losses caused by the poor performance of its personal computer subsidiary, and to reposition itself as a broad-based telecoms and information technology group. Before Christmas, the group succeeded in raising L2,257bn ($1.45bn) with a record rights issue aimed at restoring profitability and funding further expansion into telecoms.

Corrado Passera: set to resign as Olivetti chief executive

Since then the shares have performed poorly, only briefly rising above the L1,000 rights issue price. Yesterday, before the Olivetti statement was issued, the shares closed at L850, and analysts said they were likely to fall sharply today.

"Taking account of the extremely friendly personal relationship which has linked us for years, when Mr Passera informed me of the job offer proposed yesterday, we agreed that it deserved serious attention," Mr De Benedetti said in yesterday's statement. One possibility is that Mr Passera is likely to take on the job of chief executive at Banco Ambrosiano Veneto, one of Italy's biggest private banks.

The Olivetti statement added that any "management developments" would take account of the convergence between information and telecoms technology, and would happen in the "greatest harmony", making the most of "younger forces" at the company. Mr De Benedetti, who controls Olivetti through Cir, his quoted holding company, said he would convene a board meeting by the end of next month.

Earlier in the day he responded to direct questions about Mr Passera's departure by pointing out how other managers who had worked with him had gone on to pursue successful careers outside Olivetti.

Last year, Olivetti recorded a consolidated loss of L1,598bn, pushed into the red by heavy restructuring charges for the fifth consecutive year.

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NEWS: EUROPE

Germany ends wrangle over telecoms

By Michael Lindemann in Bonn

Germany's parliament yesterday agreed how to regulate telecommunications after they are fully liberalised in 1998. Private operators, however, immediately complained the government was not doing enough to ensure fair play among competitors.

The agreement between the Bundestag, the lower house of parliament, and the Bundesrat, the second chamber which represents the 16 Länder or states, ends months of wrangling. The bill will now receive a final reading in the Bundestag before the weekend and is expected to be enacted after a final passage through the Bundesrat on July 5.

Leading German companies such as Mannesmann and Veba, which are preparing to compete head-on with Deutsche Telekom, the state-owned monopolist, said they "could live with the new law".

They thought it "scandalous", however, that the government had not informed would-be competitors in advance about discounts of up to 39 per cent which Deutsche Telekom will be allowed to offer business clients from November 1.

Having announced earlier this week that Deutsche Telekom could offer the discounts – whose introduction had been delayed 10 months by the European Commission – the government said Deutsche Telekom would have to agree with competitors how much the latter would have to pay to rent Telekom lines.

However, Vebacom, the telecoms subsidiary of the Veba industrial conglomerate, said yesterday that unless a proper regulator oversaw such negotiations, Deutsche Telekom would have no incentive to reach agreement.

"We have no indication of where these talks are supposed to take us, nor of a timetable for them," a Vebacom spokesman said. "That's what we need a proper regulator for. That's the way it happens everywhere in the world."

Mr Wolfgang Bötsch, post and telecoms minister, insisted yesterday that the new law would create the basis for a liberal telecoms regime after 1998.

The opposition Social Democrats, who control the Bundesrat, had attempted to ensure each telecoms licence issued after 1998 be tailored to cover both urban and rural areas, but a ministry spokesman said such demands had been rejected. In line with Mr Bötsch's original proposals, licences will still be available to any operator who meets certain technical standards and can cover whatever area suits the operator.

The Länder had also tried to exert substantial political influence over the future regulatory authority, but the government and the SPD agreed on a compromise whereby an 18-strong advisory council made up of Bundestag and Bundesrat members would be consulted about appointments at the regulatory authority.

Finns aim to be there when Emu takes off

It's going to be tough, but the Helsinki government reckons that it has little alternative, writes Hugh Carnegy

Boosted by a healthy recovery from crippling recession – and undeterred by persistently sky-high unemployment – Finland has set its sights on an ambitious new economic target: it is aiming to qualify as a founding member of European monetary union.

In recent weeks, the expectation has grown in Helsinki that the Social Democrat-led, left-right coalition will take a big step in that direction by moving the Finnish markka, which has been floating since September 1992, into the European exchange rate mechanism by the end of the year.

The government believes that the Emu standards of tightly controlled public finances, low inflation, low interest rates and a stable currency are exactly the conditions required to regenerate the long-term growth desperately needed to soak up unemployment.

It also fears that these vital elements would be much harder to sustain if Finland – which joined the European Union only last year – stays outside Europe's economic inner circle.

"We have realised for some time that it is going to be very demanding to get in [to Emu]," says Mr Johnny Akerholm, the finance ministry official in charge of Emu affairs. "But it is going to be very cold out there if we stay outside."

The path to Finnish membership, assuming Emu goes ahead as planned in 1999, could well be disrupted by a number of critical factors other than simply whether the country meets the technical qualification criteria.

Mr Paavo Lipponen, the prime minister, and his conservative finance minister, Mr Sauli Niinisto, are united in their pro-Emu stance. But there are doubters within their so-called "rainbow coalition" – which includes the Left and Green parties – who are mainly concerned that Emu-tailored policies impede the reduction of unemployment. The rate still stands at almost 17 per cent.

Just as important, Finland will be heavily influenced by the attitude of neighbouring Sweden. The powerful pulp and paper industry is leading the lobby arguing against moving into Emu – or even the ERM – unless Sweden does likewise.

The fear is that if Finland were locked into Emu, while Sweden was outside, Swedish industry could gain strong export advantages for industries such as the forestry sector by devaluing the krona.

At present, Sweden's Social Democratic government is taking a cautious line because of splits within the party and the country over European policy. Stockholm could well decide to stay out of both the ERM and Emu, leaving Finland having to decide whether to go it alone.

"That is the worst case that could happen," declares Mr Juha Niemelä, chief executive of UPM-Kymmene, Europe's biggest pulp and paper group. "We hope Finland and Sweden will follow suit in this matter."

But Finland is getting the economic fundamentals required for Emu into shape. After suffering a 15 per cent fall in gross domestic product between 1991 and 1993, the economy has been growing vigorously for the past two years. This year, the pace of growth has slowed. Many private sector economists doubt the government's forecast of 3 per cent growth this year will be met. But there will be clearly positive expansion – at last bringing total output back to 1990 levels.

At the same time, the government has maintained a tough stance on the public finances. Spending cuts alone have taken the equivalent of 8 per cent of annual GDP out of the budget since 1992. As a result, the central government budget deficit will, at a projected 1 per cent of GDP, be well within the Emu-required levels next year.

Government debt, at 63 per cent of GDP, will be just above the Emu barrier, but falling. Other key indicators are set to be comfortably in line with required performance. Inflation is expected to reach 2 per cent next year, while the current account is set to remain firmly in surplus, underpinning the recently restored health of the markka and low interest rates.

The great shadow overhanging the Finnish economy, however, is unemployment. Total employment in Finland crashed from 2.5m in 1991 to just above 2m in 1994. Latest forecasts expect employment to return to just 2.15m in 1997 despite recent growth. Much of the recovery has been in capital-intensive export industries, while domestic industries such as banking are still shedding workers.

This year, the "rainbow" government has taken steps to introduce more flexibility to Finland's rigid labour markets. Rules on welfare entitlements, which in some cases allowed the unemployed benefits of more than 100 per cent of previous salary, have been tightened to shorten benefit periods and limit eligibility.

But deeper labour market changes that would bring down barriers to lower paid employment in potential growth areas, for example in the private service sector, are not on the agenda. This is because of resistance from the strong trade union movement and from within the SDP. "There is a lot more that could be done, but politically it is very hard to make these changes," says Mr Eski Torsti, economist for Enskilda Research in Helsinki.

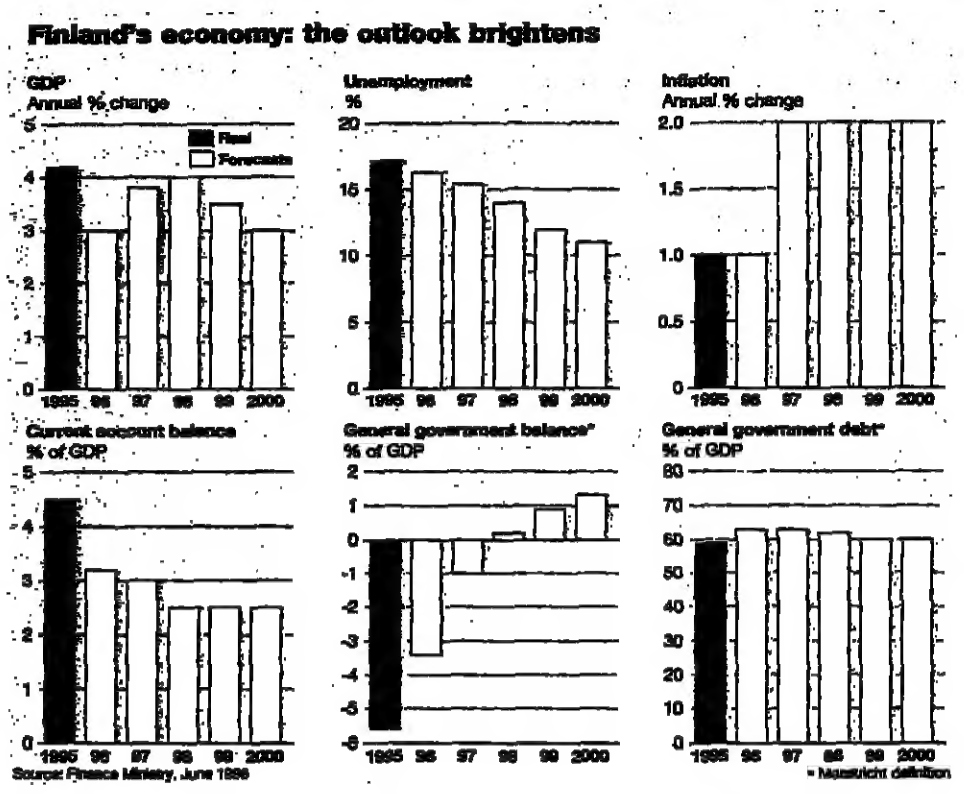
Instead, the government's strategy is to take the Emu fiscal medicine and wait for the economy to respond.

The example often cited by Finnish officials is Ireland, where a fiscal crisis of a decade ago has been turned around and Ireland has become the EU's fastest growing economy. But the ominous fact is that unemployment in Ireland is still in double figures.

As the prospect of ERM and Emu membership come closer, domestic political objections fuelled by unemployment are bound to increase.

If Sweden decides to stay out, they may become irresistible. But for the moment at least, the government is determined to join the Emu club.

Finland's economy: the outlook brightens



Source: Finance Ministry, June 1996

German court orders spy to repay earnings

By Michael Lindemann in Bonn

Karl Wienand, once a leading member of Germany's Social Democratic party, was yesterday ordered to repay DM1m ($660,000) which he earned as a spy for the Stasi, the East German secret police. The court ruling ended one of the country's most important spy cases since the fall of the Berlin wall in 1989.

A court in Düsseldorf also sentenced Wienand, 69, who managed the SPD's parliamentary party while it was in power in the 1970s, to two and a half years in prison. Wienand had been, according to the court, "an extremely important informer" who had earned DM1.3m for helping the Stasi between 1976 and 1989.

Prosecutors had sought a three-year prison sentence for Wienand, who immediately said that he would appeal against the verdict. "I never worked for the Stasi nor did I ever receive any money from them," he said.

Investigators who were processing the Stasi files after the reunification of Germany hit upon Wienand in 1993 when they came across a file codenamed "Streit", the cover for a member of the SPD who was over 60 and lived in the Rhineland.

During his 13 years of service, Wienand handed the Stasi reports about the state of German politics and details of developments within the SPD, one of Germany's two main political parties.

"He never passed on special secrets," said Mr Günter Krantz, the presiding judge.

The court said Mr Heribert Wehner, well-known head of the SPD's parliamentary party in the early 1970s who had been instrumental in forging closer contacts with the Communist regime in former East Germany, had known of Wienand's contacts with the Stasi.

During his time as SPD party manager in 1972 Wienand was publicly alleged to have paid Mr Julius Steiner, a Christian Democrat deputy, DM50,000 not to vote against Mr Willi Brandt, Germany's then chancellor, in a vote of no confidence which Mr Brandt won with two votes.

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Socialist party battles put aside as Papandreou is buried in Athens

Funeral unites Greeks briefly

By Karin Hope in Athens

Tens of thousands of Greeks yesterday turned the funeral of Andreas Papandreou, the former prime minister who died on Sunday, into a populist gathering of the kind he loved to address as leader of the Panhellenic Socialist Movement, the party he founded.

The crowd shouted "Andreas remember, we're with you", as Mr Papandreou's flag-draped coffin was carried out of Athens cathedral and placed on a gun-carriage. In temperatures approaching 40°C, the official mourners, led by Mr Papandreou's wife Dimitra, walked a kilometre to the cemetery to applause from crowds lining the streets.

Few international leaders attended the funeral. One who did was Mr Felipe González, Spain's former prime minister. The only Balkan head of state present, President Slobodan Milosevic of Yugoslavia, who received strong support from Mr Papandreou during the war in Bosnia, wept profusely.

Mr Costas Simitis, the prime minister, paid tribute in his address to Mr Papandreou's efforts to modernise Greece but glossed over the controversial policies that distanced the country from its western partners for much of the 1980s.

More unexpectedly, Mr George Papandreou, the education minister and the former premier's eldest son, made a gesture of reconciliation to Mrs Dimitra Papandreou as "a woman of courage who stood by our father in his last years".

Mr Papandreou's ex-wife Margaret, who agreed to divorce her husband after his much-publicised affair with the former Olympic Airways stewardess was seen to be denting his popularity, was also present, standing close to the coffin with her other three children.

Eulogies from political opponents underlined a moment of unity that was inevitably short-lived. Mr Simitis faces a fierce battle to succeed Mr Papandreou as Pasok's leader at a congress that opens today.

Mr Papandreou, 77, resigned the premiership in January but remained party leader despite failing health. He also refused to back Mr Simitis, whom he disliked for displaying independence, to take over.

Memories of Mr Papandreou's powerful personality and inimitable rhetoric will overshadow the congress, to the possible advantage of Mr Simitis's hardline rivals. They would prefer to organise a collective leadership until next year's general election.

One hardline leader, Mr Akis Tsochatzopoulos, the public administration minister, who lost the premiership battle in January but commands strong support among the 5,000 delegates attending the congress, wants to split the jobs of prime minister and party leader and take control of Pasok himself.

However, Mr Simitis, who heads the party's pro-European wing, has threatened to resign as prime minister if he fails to be elected party chairman. Since he is the most likely politician to win the general election, according to opinion polls, his threat to stand down should outweigh the feeling among delegates that no single Socialist can replace Mr Papandreou at the helm of Pasok.

Papandreou's widow Dimitra at the funeral yesterday with the former premier's three sons Reuter

Private pensions get off ground in France

By Andrew Jack in Paris

More than half a million people have taken advantage of France's first gradual moves towards private pension schemes, according to the country's insurance industry body.

By the end of last year just over 600,000 contracts had been taken out by those eligible under a law sponsored by Mr Alain Madelin, the former economics minister, and passed in early 1994.

The Madelin law allows individuals who are not employees to obtain tax deductions against payments they make into retirement funds, and health and accident insurance.

It was a first move towards personal pension funds, which remain a highly sensitive political topic in France because the government, unions and employers have controlled retirement funds tightly up until now. Mr Jean Arthuis, the current economics minister, recently promised to announce wider-ranging measures later this eyar, although the initiative has already been repeatedly delayed.

Total premiums collected last year under the law amounted to FFr3.6bn ($700m). Some 125,000 contracts have been taken out specifically for retirement objectives, with a further 480,000 for other forms of assurance including health.

The FFSA, the French federation of insurance companies, argued that the figures showed relative success for the law, with 10 per cent of those eligible taking out contracts, and total premiums only marginally less than projected.

The statistics were contained in the organisation's annual report, which showed a significant rise in income for French insurers last year in spite of the sluggish economy.

The 329 members of the FFSA, the French federation of insurance companies, generated turnover of FFr950bn, up by 7.1 per cent on the year before, moving the country up from fifth to fourth largest market in the world.

After four years almost without profits across the non-life sector, insurers reported aggregate profits of FFr5.5bn. Profits in the life assurance sector continued to decline, to FFr5.3bn.

Nearly 47 per cent of total non-life premiums last year were paid for car policies, with a further 14 per cent for multi-risk household insurance cover and 13 per cent for corporate insurance contracts.

The FFSA report showed a sharp rise in people using branch networks of banks, the post office and other financial institutions to buy insurance contracts. The proportion rose from 42 per cent of life assurance sales in 1991 to 56 per cent last year, and for non-life products from 1 per cent to 4 per cent over the same period.

The figures show that insurers have been sharply reducing their investment in property, which has caused heavy losses among French financial institutions in the past few years. The average proportion of the sector's portfolios invested fell to 9 per cent last year from 20 per cent in 1982.

French insurers employed 197,000 people during 1995, down slightly on the previous year.

EUROPEAN NEWS DIGEST

German rate of inflation 1.2%

Western Germany's annual rate of inflation fell in June to 1.2 per cent, reverting to the level reported for April and down from May's 1.5 per cent, according to provisional figures published yesterday.

Announcing data based on returns from four of Germany's 16 states, the federal statistics office said the cost of living in western Germany was unchanged between May and June. Falling car prices were a key factor holding down prices this month.

Yesterday's news prompted some speculation that the Bundesbank council might trim the securities repurchase rate today. The repo rate, which determines short-term money market rates, has stood at 3.30 per cent since early February.

The 1.2 per cent year-on-year inflation rates for April and June are the lowest since August 1988.

The Frankfurt office of UBS, the Swiss bank, yesterday forecast further, "albeit very moderate", falls in inflation towards 1 per cent", before a gradual upturn towards the end of the year. *Peter Norman, Bonn*

'Guillotine' for France Télécom

Mr Alain Juppé, the French prime minister, resorted to a special parliamentary "guillotine" procedure yesterday to push through the lower house a draft bill that would partially privatise the state-run France Télécom.

The opposition Socialists and Communists, who vigorously oppose the plan to change the legal status of the phone company into a joint stock company from 1997, have submitted some 500 amendments to delay voting on the bill.

The guillotine procedure, spelt out in article 49-3 of the French constitution, would link opposition to the bill to a no-confidence motion. The bill would automatically pass unless the opposition tabled a no-confidence motion within 24 hours.

The Socialist and Communist parties said they would table a no-confidence motion if Mr Juppé used the procedure.

Mr Juppé is under pressure to obtain approval of the bill before Saturday when parliament goes into summer recess. The draft bill is in line with European Commission directives on opening up the French market to competition and enabling companies to enter into international alliances. *Reuter, Paris*

Bulgarian pledge on austerity

Mr Roumen Gechev, the Bulgarian deputy prime minister and economics minister, yesterday vowed the Socialist government would not be deflected from tough austerity measures designed to tackle an economic crisis.

"Despite the difficulty of the situation we cannot allow under any circumstances cheap short-term political dividends at the expense of Bulgaria's long-term economic stabilisation," Mr Gechev told an international banking conference in Sofia.

He said plans to close down 64 loss-making state companies and to cut off credits to a further 70 – the key elements of a package agreed with international lenders – were essential for the country's economic survival. The measures would eliminate some 70 per cent of losses sustained by the economy in 1995, said Mr Gechev. The austerity measures, which include increases in taxes and fuel prices, have sparked angry demonstrations in Sofia and other cities.

Mr Gechev conceded that the reforms should have been started much earlier but said parliament would not have accepted the closure or drastic restructuring of enterprises last year when Bulgaria's macroeconomic indicators had been fairly positive. *Reuter, Sofia*

Compensation for French robber

The Council of Europe yesterday ordered France to pay compensation to a man who was convicted of armed robbery and jailed for eight years based on evidence obtained from wiretaps.

In 1989, a judge investigating Yves Peigner, 46, on suspicion of fraud over the management of a restaurant in the southern town of Montpellier, ordered his telephone tapped. In a later probe in the south-eastern town of Draguignan, the tapes were used as evidence to convict him of armed robbery.

The 39-nation Council of Europe, which acts in the place of the European Court of Human Rights in some cases, ruled that the tapping was a breach of Peigner's right to privacy and ordered France to pay him FFr7,500 ($1,250). The Council ordered France in March to pay compensation to three people whose phones were bugged in the 1980s.

A 1991 law regulated the use of wiretaps more strictly in France, but there has been continuing controversy about alleged abuses by the security services and political authorities. *Reuter, Strasbourg*

Irish crime reporter shot dead

Veronica Guerin, the award-winning Irish journalist, was shot dead yesterday near her Dublin home, the victim of apparent gangland killers.

Mrs Guerin, an investigative reporter with the Irish Independent, was awarded the International Press Freedom Award in 1995 for her work on Dublin's crime underworld. She was wounded last year when she was shot outside her Dublin home. She then told reporters from her hospital bed: "I won't be intimidated."

Mr John Bruton, the Irish prime minister, said her murder was "an attack on democracy". *John Murray Brown, Dublin*

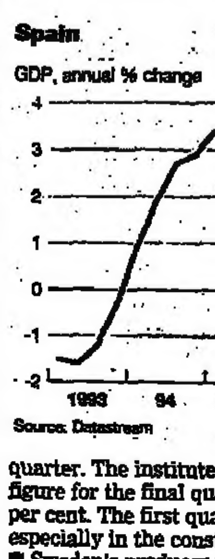
Last Yiddish daily paper to close

The world's last daily Yiddish newspaper, Unzer Wort (Our Word), will fold at the end of this month, a victim of the rising costs in the French press. Unzer Wort had already dwindled down to just three or four issues a week in recent years. It was staffed by half a dozen full-time personnel, mostly in their late 70s, aided by volunteers who sought to preserve the language of east European Jewry.

The newspaper, whose aged readership were immigrants who came to France in the 1930s and 40s, got a new lease on life with the end of Communism seven years ago. Subscription demands arrived from east European countries where small Jewish communities had survived both Nazi extermination and Communist pressures, and daily circulation crept up to 4,000. But higher costs made closing the paper inevitable, staff said. *Reuter, Paris*

ECONOMIC WATCH

Spanish growth slows down



Source: Datastream

Spain's gross domestic product in the first quarter grew 1.9 per cent from the same period last year, according to official figures from the national statistics institute. The new centre-right government is hoping for a modest recovery to achieve a 2.3 per cent expansion in GDP for the year as a whole, and has forecast a stronger rate next year. The rate, slightly below initial estimates, confirmed a downward trend that has set in since early 1995, and analysts expect little sign of improvement before the third quarter. The institute also revised downwards its growth figure for the final quarter of last year, from 2.6 per cent to 2.3 per cent. The first quarter showed a fall in investment growth, especially in the construction sector. *David White, Madrid*

■ Sweden's producer price index was down 0.6 per cent in May from April and down 2.9 per cent from a year earlier.

Kremlin tide turns against Communists

By Chrystia Freeland in Moscow

Mr Gennady Zyuganov, the Communist candidate whose hopes of becoming Russia's next president have steadily receded over the past few weeks, yesterday accused the Kremlin of breaking the law to ensure a victory for Mr Boris Yeltsin in next week's run-off.

But the Communist leader's formal accusation was dismissed as sour grapes by the Yeltsin campaign and it seemed unlikely to sway the pro-Yeltsin officials who regulate the elections.

Mr Zyuganov, who turned 52 yesterday, celebrated the occasion with a ringing attack on his rival, whom he accused of pressuring regional officials to ensure a pro-Yeltsin vote and buying support with cash handouts. The Communists also launched legal proceedings against election officials, telling the courts that results from the first round of voting in one Russian region had been falsified in the incumbent's favour.

"Many regional leaders have been warned that they will not remain in their posts if Mr Yeltsin loses in their region," Mr Zyuganov said. "Such illegal practices in preparation for the election and in the election campaign can bring into question the very results of voting for Mr Yeltsin."

However, the Communist allegations did not seem to slow the Kremlin's aggressive efforts to ensure a high voter turn-out for the July 3 ballot, which presidential aides believe is the key to Mr Yeltsin's re-election bid.

"We have to do everything to ensure a high turn-out," Mr Yeltsin yesterday told a group of regional leaders. "Be unsparing in your efforts – convince, organise, use every possibility."

Mr Oleg Lobov, a long-time Yeltsin ally recently promoted to the job of first deputy prime minister, went even further, warning regional leaders that they could be sacked if voter participation was low in their fiefdoms.

He urged local bosses to reward elderly and disadvantaged voters with small gifts for coming to the polls.

Mr Yeltsin and his lieutenants also attacked some provincial factory managers for planning to give their workers impromtu holidays next Thursday and Friday. Doing so would defeat the purpose of the mid-week election date – an unusual timing decreed by the government to capture voters who might otherwise be in their countryside dachas.

Although the run-off is still one week away, the Russian president has already been endorsed by the country's stock market.

The Moscow bourse continued to surge yesterday, buoyed by the growing confidence among western and domestic investors that Mr Yeltsin is certain to win.

Yeltsin's new strongmen rally round

John Thornhill examines the combative president's coup against the Kremlin's old guard

Mr Boris Yeltsin, fighting fiercely to remain Russian president, has this month done the seemingly unimaginable in sacking the heads of the country's military forces, security service, and presidential guard – just when he might need them most.

One of the centuries-old rules of Kremlin politics appeared to be that no Russian leader could hope to survive if he antagonised all his strongmen simultaneously.

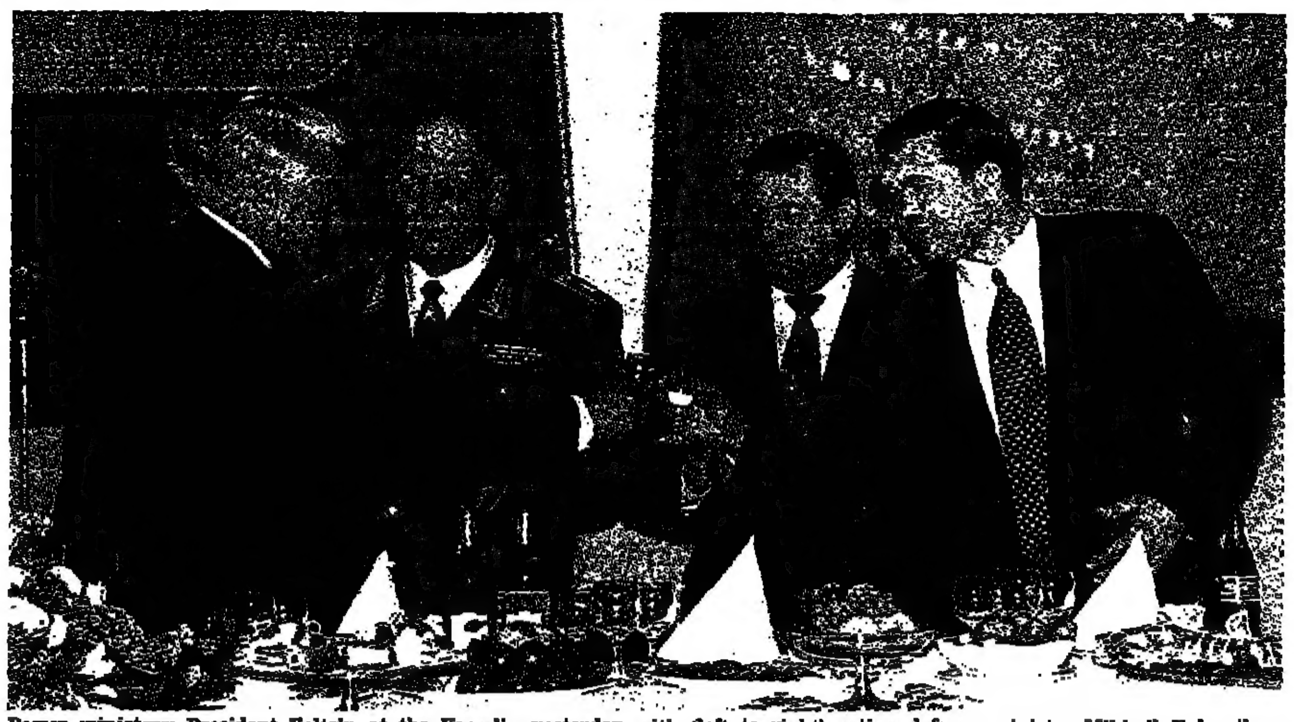
In medieval times, the fearsome Kremlin guards, known as the *Streltsy*, had a habit of impaling unpopular rulers on their pikes. Mr Mikhail Gorbachev, the last Soviet president, suffered the modern equivalent by provoking the hardline coup of August 1991.

The loyalty of the armed services could soon be tested if any civil disturbances mar the presidential elections. The Communist party has already said it will stage mass protests if it suspects any falsification of the polls.

Both Mr Alexander Korzhakov, the head of the presidential guard, and General Pavel Grachev, the defence minister, have proved their loyalty to the president in the heat of the battle. Mr Korzhakov stood by Mr Yeltsin in August 1991 when he faced down the hardline communist coup.

Gen Grachev sent the tanks back to the same building two years later to crush a parliamentary revolt.

But Mr Yeltsin has sacrificed both these loyal servants to his immediate political ambitions. Gen Grachev's head was the price Mr Alexander Lebed, the president's newly-appointed security supremo, demanded before joining the government; while Mr Korzhakov, who appears to have been preparing the ground for Mr Yeltsin to postpone the elections and rule by force, fell victim to the president's desire to appease his liberal critics.



Power ministers: President Yeltsin at the Kremlin yesterday with (left to right) acting defence minister Mikhail Kolesnikov, parliamentary speaker Gennady Seleznev and new security council chief Alexander Lebed *Reuter*

Mr Yeltsin started chasing the hawks from the Kremlin early last week by sacking Gen Grachev, who has been vilified for his bungling conduct of the Chechen war. This week, the combative president also dumped seven army generals closely associated with Gen Grachev.

Mr Lebed initially hinted these generals had been planning a coup. But the former army commander and losing presidential candidate, who appears over-fond of the dramatic statement, later admitted he had been exaggerating. Gen Grachev's aides hotly denied any conspiracy and said the generals who gathered in the minister's office were there to bid him a "manly farewell". The fallen defence minister has since been reported to be playing volleyball at his dacha.

Some of the general staff at the ministry's headquarters, however, appear to be in a state of mild panic about the arrival of Mr Lebed. There have been reports of senior army officers destroying files and erasing computer discs.

Mr Lebed has scarcely been able to conceal his personal animosity towards Gen Grachev and his cronies. "I don't like prostitutes," Mr Lebed said of the former defence minister, "whether in a skirt or in trousers."

Mr Yeltsin's move last week to sack Mr Korzhakov, his long-time bodyguard and confidant, has provoked even more surprise. In an interview published yesterday by the Argumenti i Fakti newspaper, Mr Yeltsin described Mr Korzhakov's dismissal as the "trickiest question" because of his personal debt to a man who had been with him "in the most difficult times and the most dangerous moments".

After the bloody parliamentary uprising of October 1993, Mr Yeltsin had bolstered Mr Korzhakov and poured resources into building up the 30,000-strong presidential guard.

Mr Korzhakov himself was quick to make clear his full support for the president despite his dismissal. "I have backed the president and I will continue to do so," he said. "I am not quitting the president's team and will do my best for Boris Yeltsin's victory in the run-off." However, the liberal Nezavisimaya Gazeta newspaper reported there had been considerable disquiet about Mr Korzhakov's sacking among the presidential guard.

The Federal Security Service (FSB), heir to the KGB, seems to have reacted calmly to the sacking of its head, Mr Mikhail Barsukov, a close ally of Mr Korzhakov who was also alleged to have dabbled unwisely in the president's election campaign.

Mr Barsukov, who was appointed only last summer, has not made a big impact at the FSB.

The organisation has grown used to top-level upheavals, with seven new chiefs being appointed since 1991, and appears more interested in lobbying for more resources than in plotting coups.

"Counter-intelligence officers are weary for lack of money and questions of state security take second place in their frank conversations," one commentator wrote.

If Mr Yeltsin did worry about the destabilising effect of jettisoning all his old security chiefs, he may have comforted himself with the thought that the booming-voiced Mr Lebed appears highly popular among the army rank-and-file, if not the top brass, and could sway things his way in an emergency.

Then again, there remains the possibility that Mr Yeltsin has only temporarily ditched Mr Korzhakov and Mr Barsukov and will restore them to favour after the political heat of the pre-election season fades.

"They are professionals and their life does not end here," one of Mr Yeltsin's aides said this week.

Nasdaq-style system for Ukraine securities

By Matthew Kaminski in Kiev

Ukraine's primitive securities market will gain a little sophistication next week when "over the counter" electronic stock trading starts, based on the Nasdaq system in the US.

The system, unveiled yesterday at a Kiev investor conference, aims to create an ordered secondary market for private company shares, following the belated start of Ukraine's privatisation and economic reform.

Mr Yuri Tchopko, executive director of the Ukrainian OTC Stock Trading Association, said a more transparent securities market would ease foreign investment and give a jolt to the country's economic transition.

Eighty-five securities firms have been electronically connected in the four largest Ukrainian cities of Donetsk, Kharkiv, Dnepropetrovsk and the capital, Kiev.

The computer link will make possible "real time" trading based on "firm" quotations – both novel concepts in Ukraine.

The independent, self-regulatory association plans shortly to make it possible to trade government bonds and open a link up to the Russian Trading System, the main OTC market in Russia. The infant equities market today relies strictly on the telephone and the motor vehicle, where investors spend hours if not days rounding up shares in privatised enterprises from directors or individual holders. The badly managed Ukrainian Stock Exchange has been a failure from its birth five years ago and lists only four shares.

A western official who helped set up Ukraine's OTC market said a realistic estimated would be that today $30m in shares changed hands each week despite the difficulties.

Ukraine could follow the path forged by Russia, where chaotic stock markets have grown several times over and currently report trade of about $30m a day, the official added. "Developmentally it's about two or three years behind Russia."

But Ukraine shares another less desirable feature of the Russian market in lacking a proper regulatory framework. A securities exchange commission was established last year, but its powers are only now being defined. No central depository or custodian services exist.

Ukraine's OTC market "is like a train for which the tracks have not yet been laid", said Mr Serhei Oksanych, president of Kinto, a leading Kiev investment house.

"If you have no infrastructure, foreign institutional investors can not work seriously in Ukraine," said Mr Oksanych.

The World Bank's $310m enterprise development loan, which the board will probably approve today, stipulates that the securities exchange commission must be given more regulatory authority in the coming months.

While Russia finished mass privatisation two years ago, Ukraine's sell-offs have only begun to create a private sector. The state property fund said 2,048 large and medium companies had been privatised, out of an estimated total of 14,200.

Some of the best companies remain off the auction block, either frozen through a lease to the workers or kept back for future sale by tender. "There's a shortage of liquid assets," Mr Oksanych said.

Mr Ihor Geller, in a report in the magazine Privatisation Ukraine, estimated the share of the private sector in the official economy at just 8.4 per cent.

Philip Morris to end controversial campaign

By Gordon Cramb in Amsterdam, Andrew Jack in Paris and Roderick Oram in London

Philip Morris, the US cigarette maker, said yesterday it had ended in the Netherlands its controversial advertising claims that passive smoking was less damaging to health than eating biscuits or drinking water.

The campaign, the latest in a series by the US company fighting for "smokers' rights", has drawn angry responses from politicians, health advocates, other industries and the general public across Europe.

The French biscuit industry association on Tuesday won an injunction against the advertisements. Philip Morris yesterday expressed its "surprise and shock" at the ruling but said it hoped to win an appeal. The company successfully appealed in Belgium last Friday, allowing it to resume advertising there.

Mrs Els Borst, the Dutch health minister, had condemned the campaign as misleading. Passive smoking "is completely different from eating cookies, because you can't choose not to", she argued recently. In a letter to Mrs Borst, Mr Jules Wilhelmus of Philip Morris Europe said: "The European campaign about passive smoking has today had its last appearance in the Dutch media."

The advertisements had run as long as planned and the termination was unprompted by criticism by the Dutch minister, a court ban in France or other complaints across the continent, Mr David Greenberg, the group's European vice-president for public affairs said.

"We're astounded and delighted with the level of discussion about passive smoking. We've accomplished our mission," said Mr Greenberg.

The campaign started in early June in newspapers and magazines across the continent but was winding down except in Germany, where it had started later, he added. "Only a couple of publications" had declined to take the advertisements, of which Le Monde in France was the most prominent.

Philip Morris said the purpose of the campaign was to use existing independent scientific studies to overturn the public perception that inhaling smoke from other people's cigarettes was damaging to one's health.

But the advertisements have particularly incensed bakers by claiming that eating one biscuit a day was more dangerous than being subjected to other people's tobacco smoke.

British bakers have been one of some 20 organisations or individuals in the UK who have complained about the campaign, the UK Advertising Standards Authority said yesterday.

"That is an average number for a general complaint but it is probably a low number for a campaign dealing with a contentious issue," said Ms Caroline Crawford, the ASA's director of communications. The ASA will take several weeks to review the case.

The French national committee against excessive smoking, which is supported by the French ministry of health, has said it would launch a legal action against Philip Morris for a campaign which it argued was illegal.

Japanese former housing loan chief arrested

By William Dawkins in Tokyo

Japanese police yesterday arrested the former head of Japan's largest *jusen* (housing loan company) and six others, the first senior executives to face criminal charges over the multi-billion-dollar collapse of seven mortgage lenders.

Mr Noboru Kawahara, 71, who retired as president of Nippon Housing Loan in 1992, is suspected of authorising loans totalling Y1.9bn ($17.4m) to an insolvent Tokyo property developer, without collateral and in full knowledge that the money would never be repaid.

He was arrested with three former colleagues and three executives of the property company, OCT, which went bankrupt, owing Y39.2bn, a year after Mr Kawahara's retirement.

Mr Kawahara's arrest is an embarrassment for the Industrial Bank of Japan, the country's top corporate lender, and the leader of NHL's five institutional founders. "It was truly regrettable that Nippon Housing Loan officials, particularly those who originally came from this bank, were arrested," said the IBJ yesterday.

Yesterday's arrests, unlikely to be the last in the *jusen* fiasco, are also a sign of prosecutors' eagerness to assuage public outrage, stoked up by an unpopular government plan, adopted by parliament only last week, to spend up to Y685bn of taxpayers' money on liquidating the *jusen*.

Jusen were set up by private sector banks, encouraged by the finance ministry, in the 1970s to help a newly affluent generation of urban-white collar workers buy their own homes. But the *jusen* were fatally drawn into the property speculation bubble of the late 1980s. NHL, set up in 1976, was a late starter in the *jusen* industry, but Mr Kawahara, who became company president in 1981, turned it into the largest participant by the end of the 1980s.

Yesterday, NHL became the first *jusen* to be wound up, a casualty of its own profligate lending and the property collapse. NHL has loans outstanding of just over Y2,000bn, of which its exposure to OCT is a small part. Of the total, Y1,047bn is believed to be irrecoverable.

Industry officials yesterday speculated that more arrests of other *jusen* executives would follow. "Public prosecutors want to show they are at least making an effort to clear up the scandal, but I do not know how far they are prepared to dig," said one executive.

● Mr Taku Yamasaki, the LDP's top policy maker, yesterday said Japan would face an election by the year's end, confirming recent speculation among political observers in Tokyo, that the government would go to the country in the late autumn.

India seeks to reverse its brain drain

The push is on to attract wealth and skills of 15m non-residents, writes James Kynge

At home in New Delhi one night, Mr Deepak Banker was watching a television programme on an attempt to repair the US Hubble telescope in space. It emerged that the mastermind behind the successful operation was a 35-year-old ethnic Indian from Madras.

"We have to get that kid to come back to India," said Mr Banker, president of the Federation of Indian Chambers of Commerce and Industry, an organisation which groups 120,000 companies throughout India. "We must reverse the brain drain."

His aspiration was common to many participants at an unusual gathering last week in Singapore. The first meeting of entrepreneurs from the worldwide Indian diaspora, its main preoccupation was how to attract the wealth and skills of 15m overseas Indians to help in modernising a country with a population of 930m.

Singapore, with its record of successfully funnelling overseas Chinese money back to China, was offering its services as a catalyst in what it hopes will be a flood of investments from non-resident Indians (NRIs) to their ancestral home.

For a while, everything went according to plan. Mr P. Chidambaram, India's finance minister, made an upbeat address, promising that free-market reforms begun in India five years ago are too entrenched to be rolled back. He assured people his new coalition government, composed of 13 parties, was stable, because its decisions represented a broad consensus. He then appealed for investments.

"You are welcome to India because you have the ideas, the skills and the technology we need," said Mr. Chidambaram. "You are doubly welcome because you are Indian."

Singapore leaders also made their pitch. Mr Lee Hsien Loong, deputy prime minister, said his city state would provide a congenial place for NRIs to do business in the Asia-Pacific region. With its multiracial society, in which Indians are a significant minority, Singapore would be a good springboard into India.

"Between 1983 and 1994, overseas Chinese poured US$70bn (£46.6bn) into China, two-thirds of its total FDI (foreign direct investment)," Mr Lee said. "The potential for NRIs to raise their investments in India is large, once they see they are welcome and can contribute to and benefit from changes under way."

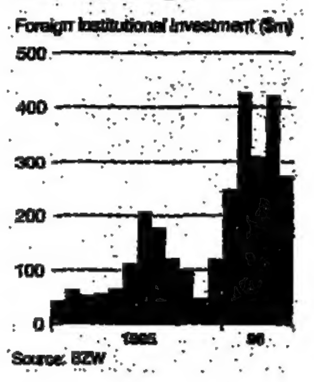
> 'We have been putting up with a hard life in India while they have been living in luxury abroad. Why should we welcome them now like masters of a new raj?'

For many NRIs, the picture did not seem rosy. In one session, they railed against a plethora of problems. One complained that sending a fax is often impossible; it is sometimes quicker to deliver a message in person than send it by post.

Mr Vijay Rangarajan, who runs a software company in California, said he often has to wait nine months for customs clearance for computers he sends to a venture in Bangalore. Another senior businessman, speaking privately, said that to get any one task done, "you must bribe seven people".

India's pulling power

Foreign institutional investment ($m)



Source: BZW

Despite the griping, there are signs many NRIs are actively looking for investment opportunities in India. Several foreign banks have set up divisions to manage NRI business. Estimates of the total net worth of the diaspora vary widely but most put the figure at $150bn-$300bn.

"There is an impression the process of reform in India is irreversible and that each state is doing its best to attract investment," said Mr Ravish Chopra, senior executive for Indian business development at the Hongkong and Shanghai Banking Corporation in Hong Kong. "People are beginning to look at projects more seriously now that the new government has shown itself pro-reform," he added.

Most NRI business has tended to flow through banks which combine an international presence with an Indian branch network, often a vestige of British colonial rule. The Standard Chartered Bank and the Australia and New Zealand Banking Group, both of which have a branch network in India, run a significant amount of NRI business.

So far, the lion's share of banking operations has concentrated on deposits in high-interest rupee accounts designed specially for NRI money. If India's charm offensive works, the scope of banking activities is likely to widen.

Mr Ajit Kumar, chief commissioner for NRI investments at India's finance ministry, said the government wants to attract $10bn in foreign direct investment every year, a big jump from some $2bn seen last year. He did not have a figure for NRI investments into India so far, but said swelling funds in NRI rupee deposits should spawn new portfolio and commercial investments.

Certain rules favour NRIs over other foreign investors, including a 5 per cent allocation for NRIs in the shares of initial public offers. Another stipulates that only those foreign companies with an NRI share of more than 60 per cent are allowed to engage in real estate development.

Analysts say it is unlikely NRIs can transform India the way overseas Chinese investments have driven China's modernisation. India does not have a Hong Kong or a Taiwan offshore; its diaspora is more dispersed than the 55m Chinese living outside mainland China. Overseas Chinese retain links to their ancestral land through a network of associations prominent in the cities they inhabit. Indians abroad have fewer institutions to ensure ethnic cohesion.

Some observers say that while the red carpet was routinely rolled out for overseas Chinese investors in China in the 1980s, NRIs sometimes encounter resentment from their countrymen.

"We have been putting up with the hard life in India while they have been living in luxury abroad. Why should we just welcome them back now like masters of a new raj?" said one Indian commentator at the conference. "A lot of people are not keen on seeing them back."

The pattern and pace of India's growth could depend on whether this sentiment or that of the ICCI's investor-friendly Mr Banker prevails. To many NRIs who have taken the plunge, the question is academic. "It's tough sometimes, but who cares? We could get very rich," said one NRI electronics manufacturer in Bangalore.

Beijing air chief visits Taiwan

By Laura Tyson in Taipei

The chairman of China National Aviation Corporation, business arm of Beijing's aviation authority, is to visit Taiwan today, a sign that frosty cross-strait ties may be beginning to thaw.

The arrival of Mr Wang Guixiang, who is also chairman of Hong Kong's Dragonair and Air Macau, will have political as well as commercial significance, as Mr Wang is likely to meet Mr Koo Chen-fu, a leading Taiwanese industrialist who is also a senior figure in the ruling Nationalist party and Taipei's chief negotiator with Beijing.

The visit is a rare visit by a senior industrialist from China, and suggests that both sides are looking ahead to the resumption of direct flights between Taiwan and China, severed in 1949.

Both sides of the strait are keen to restore direct air and sea links, but they have been held up by disagreement over the terms of the arrangement. Taipei wants such routes to be considered an international route, but Beijing insists that they should considered domestic routes.

Mr Wang will probably also meet Mr Chang Kuo-cheng, acting director of Taiwan's Civil Aeronautics Administration, and other officials who would be involved in future talks on the resumption of direct flights. He may also meet executives in the private sector airline industry.

ASIA-PACIFIC NEWS DIGEST

Peng to attend Hanoi congress

Chinese premier Li Peng arrives in Hanoi today at the head of a Chinese Communist party delegation to Vietnam's eighth Communist party congress, which starts tomorrow. It will be the first such visit by Chinese communist party officials for over 35 years, a Chinese embassy official said yesterday.

Meanwhile, Vietnam's top three Communist leaders are likely to be retained after party cadres on Tuesday voted to include the trio in a new Central Committee, which is ranked below the politburo. The vote will ensure political leadership continuity with Mr Do Muoi, party secretary, 80, President Le Duc Anh, 76, and reformist Prime Minister Vo Van Kiet, 74 at the helm, but reflects the difficulty the party has had in finding suitable successors.

Diplomats note that in spite of sharp differences at government level, relations between the two Communist parties have been relatively smooth. "Ideologically, their views about the development of their countries are very close. The party bureaucrats understand each other very well," said one east European diplomat. *Jeremy Grant, Hanoi*

Harder line on Sumitomo rating

Moody's Investors Service, the US credit rating agency, yesterday it would expand its review of Sumitomo Corporation for a possible downgrade because of increasing uncertainty over the size of the company's losses on copper trading. The decision to extend the review to include short-term debt reflected the lack of disclosure by Sumitomo and Japanese financial authorities.

Moody's announced it would review Sumitomo's long-term debt after the company said on June 13 it had lost $1.8bn in copper trading. Three-month copper recovered to close at $1,799.50 a tonne on the London Metal Exchange. Sumitomo's shares lost another Y14 to Y966 on the Tokyo stock market. *Emiko Terazono, Tokyo*

Australian telephone challenge

Optus Vision, the Australian communications and pay television group, yesterday launched its new local telephone call service, breaking state-owned carrier Telstra's long-held market monopoly. Optus Vision is expected to cut the price of a local call up to 40 per cent from Telstra's current price of 25 Australian cents (20 US cents) for untimed calls.

The Optus service will only be available to homes it has connected to its A$4bn fibre-optic cable network, currently about 1m of Australia's 6.7m households. In anticipation of the launch, Telstra, which is earmarked for privatisation, has not lifted the price of a local call for three years and has cut the prices of its international and interstate calls by about 25 per cent. The Optus Vision launch comes 12 months before full deregulation of Australia's telephone market. *Sydney, Reuter*

Probe into soft loan scheme

Controversy over the Australian federal government's decision to axe the Development Import Finance Facility, a A$120m (US$95m) "soft loan" scheme used mainly to aid projects in Asia, escalated yesterday, with the Senate setting up an inquiry into the matter. The move was supported by Labor and the minor parties who hold the balance of power in parliament's upper house. But it was immediately attacked by Senator Robert Hill, government's leader in the Senate, who claimed the inquiry was simply a political tool for attacking Mr Alexander Downer, foreign minister, whose handling of the issue has been less than skilled. *Nikki Tait, Sydney*

Clinton aide quits in FBI files scandal

By Patti Waldmeir in Washington

A White House aide responsible for improperly obtaining FBI background files on some prominent Republicans has resigned, the first casualty of what is threatening to become a serious political scandal for President Bill Clinton.

Mr Craig Livingstone, head of the White House personnel security office, yesterday denied that he or any other White House official had been involved in any kind of "smear campaign" against Republicans who served in previous administrations. "It's just not true," he told a congressional committee investigating the FBI files affair. He said the files – which are now believed to total over 700 – had been requested from the FBI due to "an entirely innocent mistake". Mr Livingstone's resignation is likely to be greeted with relief by the White House, which has been trying to limit the affair's political damage.

The files were procured in 1993 and 1994 during a routine updating of a list of persons entitled to access to the White House, Mr Livingstone said, adding the request was based on an outdated list provided by the Secret Service. Names of some prominent members of Republican administrations appeared on it, including Mr Brent Scowcroft, national security adviser to President George Bush, and the former president's press secretary, Mr Marlin Fitzwater.

Republicans have cast doubt on this explanation, pointing out that even the most junior White House official ought to have recognised such well-known names and realised they were no longer eligible for White House access. There would thus have been no legitimate reason to procure their FBI files.

President Clinton's former White House counsel, Mr Bernard Nussbaum, admitted that procuring the files from the FBI amounted to "a serious breach of privacy", and said he took responsibility for the error although he did not know of the request. "We made a bad mistake here. It was an innocent mistake I believe, but it was a bad mistake."

But he added: "The very idea of obtaining FBI files for the purpose of digging up dirt on political opponents – the very thought of creating an enemies list and using secret and private government information against those individuals – is abhorrent to me."

That is exactly the allegation now being levelled at the White House by Republicans, who have pointed out that, unlike the Whitewater affair which pertains to distant events from the 1980s, these improprieties were committed recently.

The committee is expected to hear later from an Army staffer who says he gathered some 300 files for the White House, bringing the total of files requested to over 700.

Sharp boost in US durable orders

By Michael Prowse in Washington

New orders for US durable goods rose sharply last month, reflecting a surge in demand for commercial aircraft, the Commerce Department said yesterday.

Orders rose by 3.3 per cent last month and by 7.7 per cent in the year to May. The data surprised Wall Street economists, who had projected an increase of about 1.2 per cent.

However, analysts played down the significance of the increase because the main source of strength was a doubling in orders for aircraft – a highly volatile sector.

Excluding transport, orders rose 0.7 per cent, roughly in line with expectations.

Economists said that orders for civilian capital goods excluding aircraft – widely seen as a proxy for business investment demand – were flat last month, having declined in previous months.

The figures were released as the US Federal Reserve prepared for a policy meeting on interest rates next week.

Many economists expect the Fed to raise short-term interest rates this summer in response to evidence of above-trend economic growth.

But the timing of any increase remains uncertain, with some analysts warning that an increase as soon as next week is unlikely.

US Supreme Court overturns limits on Congress election expenditure

Court frees party poll spending

By Jurek Martin in Washington

The US Supreme Court yesterday ruled that political parties need not abide by federal election spending limits in offering financial support to congressional candidates.

The 7-2 judgment, handed down one day after the Senate had effectively killed a campaign finance reform bill, could have an impact on this year's elections for the legislature and could, in theory, be applied to the race for the White House, in which candidates receive about $65m each in direct federal funding, supplemented by approximately $10m in party money.

The case in front of the court stemmed from the 1986 Senate contest in Colorado won by then Democratic Congressman Tim Wirth, who is now under-secretary of state for global affairs.

Although it had chosen no Senate candidate of its own at the time, the Colorado Republican party spent $15,000 on broadcast commercials attacking Mr Wirth's record. The Federal Election Commission and an appeals court found this violated the 1971 campaign spending act.

The Supreme Court, however, overruled these judgments and declared that the constitutional rights to free speech of the Colorado Republican party had been abridged. It did not state that political parties have a constitutional right to spend as much they wish on congressional candidates but, at the very least, it appears to have driven a wedge into the existing law.

The 1971 law generally limits contributions by state and national parties to Senate races to $20,000 or two cents for each citizen of voting age, whichever is the greater. This may be a small bucket in the ocean of what a candidate may actually spend, for which the record is the nearly $30m spent in California in 1994 by the independently wealthy former Republican Congressman Michael Huffington.

Both the Democratic and Republican national parties had petitioned the court to remove spending limits. But lawyers for the Clinton administration had argued that the federal ceilings helped prevent corruption, or the appearance of corruption.

In another keenly anticipated ruling, the court ordered, by a 7-1 majority, the all-male Virginia military institute, a state-supported college, to admit women. It found that VMI's provision of a parallel programme at a nearby women's college did not constitute equal education.

This judgment also applies to the Citadel, another old military university in South Carolina. Two years ago Ms Shannon Faulkner became the first female cadet after a court had ordered her admission but she dropped out of school after only a couple of weeks.

This ruling, considered significant for women's rights, could become a political issue. Republican candidates in the South Carolina primary came out in support of the Citadel's ban on women.

Protests spoil Zedillo's tour of southern state

By Leslie Crawford in Mexico City

Anti-government protesters blocked highways and oil wells during a visit by President Ernesto Zedillo to the strife-ridden state of Tabasco in south-eastern Mexico, where the governor, a member of the ruling Institutional Revolutionary Party (PRI), stands accused of having spent vast sums to secure his election and of alleged ties to money launderers.

The demonstrations on Tuesday were led by leaders of the opposition Revolutionary Democratic Party (PRD), who have pursued a dogged, year-long campaign to impeach Mr Roberto Madrazo, the Tabasco governor.

It was an awkward visit for Mr Zedillo, and not only because the road blocks and punch-ups forced him to tour the oil-rich state by helicopter. Mr Zedillo has been under pressure from his own party to come to the defence of his embattled governors, three of whom have resigned in the past 18 months as a result of human rights violations, embezzlement and incompetence. Mr Zedillo's visit to Tabasco, in which he pledged more than $1bn of investment for the state, was therefore widely interpreted as show of support for Mr Madrazo.

"I am satisfied with the effort, commitment and achievements of the government led by Roberto Madrazo," Mr Zedillo said, in his first public endorsement of the controversial Tabasco governor since the scandal over Mr Madrazo's $73m election war-chest broke out last year.

After a year-long investigation, Mexico's top law-enforcement agency earlier this month charged several government officials in Tabasco with perjury for concealing massive election overspending during the state governorship race in 1994.

The Attorney-General's Office also established that part of Mr Madrazo's campaign funds had been donated by Mr Carlos Cabal Peniche, a Tabasco banker suspected of money laundering who fled the country after fraudulent operations were uncovered at his bank.

California exports rise 17% to $26bn

By Christopher Parkes in Los Angeles

The reviving Mexican economy and strong demand for electronics from Canada helped expand Californian exports 17 per cent to almost $26bn in the first quarter of this year.

Economic recovery and the strength of the currency in Japan, traditionally the state's biggest customer, showed through in a 38 per cent sales boost to $4.7bn, according to the Trade and Commerce Agency in Sacramento.

Shipments worth $2bn to Mexico, following a decline of almost 4 per cent in the comparable part of last year, showed the biggest quarterly gain in more than two years.

Ms Julie Meier Wright, trade secretary, said the surge in dealings with California's nearest foreign neighbours demonstrated the benefits of the North American Free Trade Agreement.

The data also showed the impact of Asian economic growth on the state's fortunes, with Singapore increasing its purchases of California-origin goods and services 48 per cent to $1.6bn in the review period.

Growth in dealings with Europe was sluggish because of "European efforts to tame their domestic economies in preparation for economic and monetary union". Exports to Germany slipped almost 3 per cent, though the UK went against the EU trend with imports worth $1.2bn, up 13 per cent.

Poll battle: Buenos Aires town hall (left) and President Menem

Radicals stalk power via Buenos Aires

David Pilling on a city election with national fallout

On Sunday, for the first time in the city's 400-year history, Buenos Aires will elect a mayor. The non-elected incumbent, Mr Jorge Domínguez, is a Peronist. But middle-class Buenos Aires, never comfortable with Peronism's essentially working-class roots, is likely to change that.

Polls show Mr Domínguez, now the Peronist candidate, trailing in third position, on about 18 per cent. Mr Norberto La Porta, a socialist representing the centre-left Frepaso alliance, is in second place with 24 points.

Far ahead, on 37, is Mr Fernando de la Rúa of the Radicals. Victory for him on Sunday would be a God-send to the country's oldest political party, humiliatingly trounced into third place by President Carlos Menem's Peronists in a general election last year. Success on polling day, says Mr De la Rúa, would "consolidate an alternative", enabling the Radicals to showcase "an exemplary government as a counterpoint to the frivolity and corruption" of the national administration.

A Radical win would undoubtedly be a setback for Mr Menem, but its national significance should not be exaggerated. The 3m citizens of the federal capital – the centre of the sprawling conurbation of Greater Buenos Aires, which has 13m inhabitants – are hardly typical Argentine voters.

Per capita income is $24,300, according to official statistics, three times the national average. The city's economy, at $75bn, is bigger than the national economy of Chile. Per capita wealth is distorted by heavily skewed income distribution and by an overvalued peso, but nevertheless makes the average Buenos Aires resident nominally richer than British citizens and not far behind those of the US.

Such wealthy voters have always been antagonistic to Peronism, which has historically shrouded itself in the rhetoric, and sometimes the practice, of fairer income distribution and workers' rights. Mr Menem's neo-liberal policies have, in broad terms, favoured the poor and the rich, but battered some sections of the middle classes, solidifying support for opposition parties in the capital.

Many middle-class Argentines lost out in the sweeping privatisations begun by the Menem administration in the early 1990s.

When the state oil company YPF was privatised, 50,000 jobs were axed, many of them well-paid middle-management positions, some of them handed down from father to son and always carrying generous pensions. Former state workers, often based in Buenos Aires, have had to take lower-paid jobs, or have swelled the ranks of the unemployed.

Much of the Peronist government's national popularity is hinged on its partial success in restoring living standards by killing hyperinflation. But this does not carry as much weight with Buenos Aires's middle classes, many of whom had become adept at profiting from high inflation. Add to this the perception that health care, the arts and higher education have all suffered badly under Menemism, and one is left with what Mr La Porta terms "the growing pauperisation of the middle classes".

Not that all concerns are the same in a city roughly divided between the rich north and the poorer south. North of Rivadavia street, which cuts a swathe through the centre, is a land of fur coats, pedigree dogs and manicured gardens. Go south and the pavements are cracked and litter-strewn, poverty more evident, social services more stretched.

The candidates are going through the campaigning motions, addressing such municipal issues as hospital repairs, traffic congestion and town planning. But most analysts say the expected Radical victory will be predicated on the desire of Buenos Aires residents to send a message of discontent to the national government.

Corruption is at such levels, says Mr La Porta, that it costs twice as much to build 100 metres of Buenos Aires subway as in Europe. The $3bn city budget is "a pretty picture that lacks all seriousness", he says. "There is absolutely no accountability."

The Radical party's national fortunes sank to historic lows when in 1993 former Radical President Raúl Alfonsín signed a pact with the Peronists facilitating Mr Menem's re-election. Victory, say the Radicals, could provide the platform from which to launch a presidential bid in 1999.

A Radical win, however, would be tempered by the likely outcome of parallel elections for a 60-member commission that will write the constitution of the newly autonomous city. That, polls say, will be won by Frepaso.

More important still, the Radicals, some of whose principal figures are involved in serious corruption scandals, will have to polish their image to make credible their claim of representing clean government. The Radical party has been out of office so long that some observers expect this weekend's election to be followed by an ugly scramble for jobs and influence.

In the machiavellian world of Argentine politics, Mr Menem might be quite content to sit back and watch the unsightly spectacle.

Chirac gives G7 a French flavour

By David Buchan in Paris

President Jacques Chirac has given the Group of Seven summit which opens in Lyons tonight a distinctly French flavour, in his choice of "globalisation" of the world economy as the main menu for the leaders' two days of talks.

According to his spokeswoman, Mr Chirac hopes that "making globalisation benefit everyone" will be the guiding theme of the summit's economic discussions, with his fellow leaders underlining the risks as well as the rewards flowing from closer integration of the world economy.

As the world's fourth largest exporter, France has no desire, let alone ability, to reverse or shield itself from globalisation, French officials insist. The point is reinforced by the decision to hold the summit in Lyons, one of France's most international cities. Its mayor is now Mr Raymond Barre, the former prime minister who in the 1993-94 French battle over Gatt was a lonely voice for the world trade accord.

Others less reconciled to globalisation will be out on the streets of Lyons over the next two days. After a 40,000-strong warm-up rally there on Tuesday by French unions, a series of counter-G7 protests is planned by aid, environmental, human rights and leftwing organisations calling themselves "Other Voices of the Planet", "Let's Take Back The Initiative" and "Resistance to Globalisation".

For his part, Mr Chirac will want to use his G7 stage to show his public the problem goes far wider than France. While globalisation may bring rewards by spreading technology and increasing trade and overall economic growth, he will emphasise the burden that adaptation to increased global competition places on people and countries.

French officials point out that inside the G7 countries, 23m people are without jobs, 3m of them in France, while outside, some 40 developing countries have become increasingly marginalised.

In the run-up to Lyons, France convened a rather inconclusive G7 jobs summit in Lille in early April, which steered a mid-course between Anglo-Saxon labour flexibility and continental European rigidity by calling in general terms for labour market reforms. French officials admit that, apart from some US support, there is no G7 consensus behind the French idea of involving the new World Trade Organisation in negotiating a core of minimum labour standards.

By contrast, they believe French views on the need for financial and currency stability and for more development aid efforts are gaining support. They are pleased a report prepared for the G7 by finance ministers endorses the usefulness of intelligent intervention by central banks on the currency markets, and hope Lyons will bless the recent rise of the US dollar.

Though G7 summits were a French invention, by Mr Valéry Giscard d'Estaing in 1975, with Mr Barre as his "sherpa", France has always stressed it should not behave like a "directorate", unheeding of other countries' views. To garner their views, Mr Chirac has sent emissaries to 20 non-G7 countries. The result has been to reinforce his determination to make aid and debt a big topic of the Saturday session in Lyons with heads of the international financial institutions.

Another effort at openness will take the form of a giant screen in Lyons' Place Bellecour with television coverage of the summit.

Bombing raises doubts about stability of world's biggest oil producer and safety of western troops stationed there

An explosive mix of young Saudi anger

Roula Khalaf traces the roots of opposition likely to have been behind Tuesday's bombing

Mr Saad al-Fagih, a leader of the London-based Saudi Islamist opposition, believes the perpetrators of the bombing of a complex in Saudi Arabia on Tuesday were young Islamic extremists who will attempt to strike again. Next time, he said, the target could be the Saudi royal family.

For people like Mr al-Fagih, who call for stricter adherence to Islam in Islam's most conservative land and accuse the royal family of corruption, the loose network of youth who believe violence alone can achieve their objectives, can only be silenced by allowing those whose politics inspired them a voice in Saudi society. "All the people who can control those agitated people are in prison," he said.

When a car bomb destroyed a US-staffed Saudi National Guard communications centre in Riyadh last November, the Saudis quickly pointed the finger at outside powers. Then, much to everyone's surprise, in April they produced four suspects who confessed the bombing was a home-grown conspiracy. The four were beheaded in May, provoking threats of reprisal in anonymous phone calls to the US embassy in Riyadh.

The admission that Saudi nationals had threatened the security of the state led analysts to suggest that the seemingly staged-managed confessions on national television were at least partly genuine.

It also focused attention on a growing Islamist opposition which, although not strong enough to pose a threat to the survival of the Saudi regime, can present a challenge to a country whose security apparatus and repression of opposition groups had long shielded it from the threat Islamists pose in other Middle Eastern countries.

In many ways, Saudi Arabia finds itself besieged by a monster it helped to create. The Saudi regime was once the main backer of Islamic opposition groups in Egypt and elsewhere in the Arab world, whom it believed could act as buffers against the spread of communist ideology.

It helped finance and encouraged 15,000 volunteers to fight alongside the Mujahideen in the western-backed holy war against he Soviet invaders of Afghanistan. Three of the four men Saudi Arabia says were responsible for the November bombings confessed to being "Afghans", as the Arab volunteers are known.

Although the kingdom was beset by riots in the 1980s in the mainly Shia eastern province, the unrest was seen as inspired by Iran, at the time actively sought to export its Islamic revolution.

Opposition in Saudi Arabia comes from two diametrically opposed poles: educated and liberal-minded middle class liberals who do not challenge the legitimacy of the royal family but would like to see more western-style democratic reforms, and the Islamists who call for political reform but of the kind that would promote an even more puritanical version of Islam, eradicate royal family corruption and rid Saudi Arabia of western influence and forces.

Today it is the Islamist opposition that is the most potent and the one that has attempted to organise itself into a semi-coherent movement.

The turning point for this opposition, led by so-called "neo-Wahhabis", younger clerics who see the Council of Ulemas, the Saudi religious establishment, as nothing more than a rubber stamp for royal family shenanigans, was the Gulf war of 1990-91. The Al Sauds at that time asked for US help to counter a potential Iraqi threat and allowed more than 500,000 American soldiers to use Saudi Arabia as a base to liberate Kuwait.

The landing of US troops was seen by the country's conservatives as a violation of sovereignty. Echoing a theory some Saudis and Arabs subscribed to at the time, Mr Sefr al Hawali, a Sheikh from Qassim, the heartland of the Nejd which is not represented in the Majlis al Shoura, the consultative council created two years ago by King Fahd. He taped a lecture during the Gulf war which was distributed in millions of copies accusing the US of harbouring plans to control Gulf oil resources.

After the war, a group of 400 scholars, clerics and technocrats signed a letter to the king which, detailing 12 demands, including a reshuffling of the religious establishment and the forbidding foreign troops on Saudi soil. The government went to its own clerics who were all too happy to issue *fatwas* – or religious edicts – saying the demands were counter to the teachings of Islam.

In 1992, another 44-page document was fired off to the king demanding a full programme of reform based on the 12 points. The official clergy again ruled the memorandum a breach of Islam.

Undaunted, six of the signatories then formed the Committee for the Defence of Legitimate Rights in 1993, using a human-rights shield to set up a political organisation which aims to turn Saudi Arabia into an even more inward-looking and puritanical state. When the committee's rhetoric turned to accusations of Saudi royal family corruption, some CDLR members and organisers were arrested.

Until then, little was known or said of the Islamist opposition, given the kingdom's tight control of information and the lack of access allowed foreign journalists. This, however, quickly changed when two people behind the CDLR made their way to London in 1993.

Mr al-Fagih was one. The other was Mr Mohammed al Massaari, a former physics professor at al Saud University whose presence in Britain threatened British commercial interests in Saudi Arabia and soured diplomatic relations with the kingdom.

The two re-established the CDLR in a North London apartment from which they bombarded the Kingdom with faxes detailing lurid tales of royal family corruption and turned opposition to the royal family into an international media event.

The royal family's irritation was such last year that it put pressure on Britain to deport him. British government attempts to send Mr al Massaari off to the Caribbean island of Dominica, however, failed and he has been allowed to remain in Britain for another three years.

This week's blast in Dhahran will again focus attention on Mr al Massaari whose fortunes were thought to have dimmed when he and Mr al Fagih split and the latter is believed to have taken with him much of the group's financing.

While these divisions brought to light the splintered nature, and thus relative weakness, of the Saudi Islamist opposition, the attack near the Dhahran air base – if confirmed to be the work of an extremist Islamic group – will raise concerns about the strengthening of the more violent opposition at the expense of the politicians.

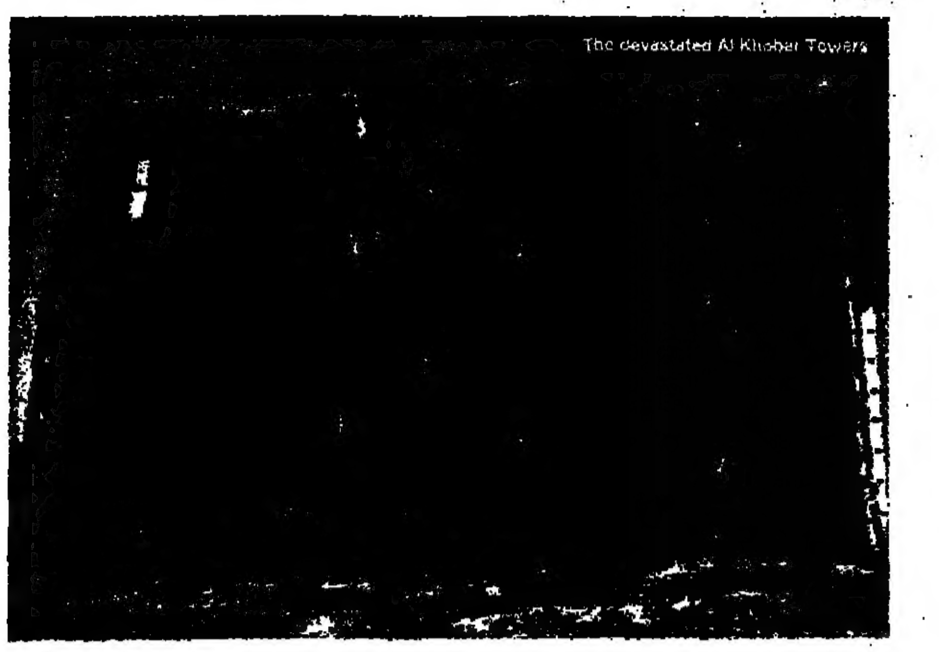
The radical opposition is thought by diplomats to be made up of loose groups, each following a specific cleric. Diplomats say explosives can easily be smuggled into the kingdom. Those used in the November bomb attack were smuggled from Yemen.

The four who confessed to the November bombings said they had been inspired by Mr al Massaari as well as by Mr Osama Bin Laden, a member of one of Saudi Arabia's wealthiest merchant families who is suspected of being a main financier of radical Islamic groups in Egypt. Mr Bin Laden, who has reportedly been stripped of his Saudi nationality, has lived in Sudan for the last five years, although recent reports suggest Sudanese authorities have asked him to leave.

Mr Fagih says that the way to stem any further attacks is to release the clerics whose teachings the radical Islamists are implementing by force in order to move the battle on to the political front.

The fear is that, however essential, more forceful clampdown inside the kingdom will only fuel further attacks. More than 50 per cent of the Saudi population is aged under 21 and with the decline in oil prices and in incomes, some have very little to lose.

And, as many Middle Eastern countries can testify, it takes good organisation but not a large number of extremists to mount bomb attacks.

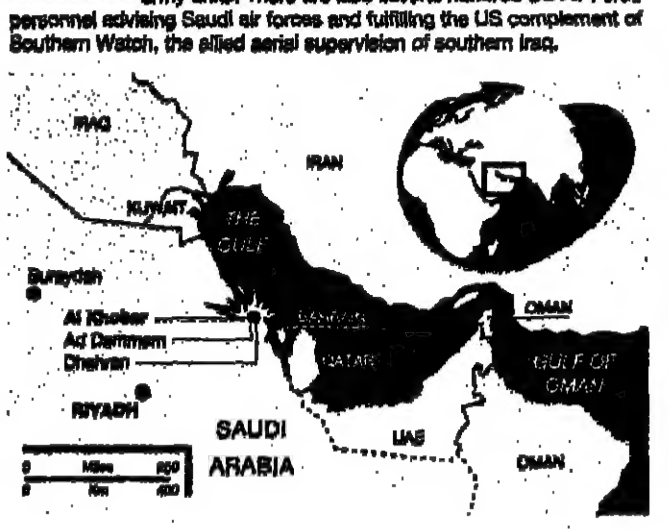


The foreign forces in Saudi Arabia: all potential terrorist targets

US: An estimated 30,000 personnel on a rotating basis, the majority of whom are ground forces engaged in US training exercises and in advising Saudi army units. There are also several hundred US Air Force personnel advising Saudi air forces and fulfilling the US complement of Southern Watch, the allied aerial supervision of southern Iraq.

UK: About 2,000 technicians on behalf of the Al Yamamah programme, the government-to-government Tornado agreement. There are also about 200 air force personnel supporting the British detachment in Southern Watch.

FRANCE: Several hundred naval technicians as part of the Al Sawari government-to-government naval modernisation and expansion programme. Also a Southern Watch contingent.



Foreigners braced for further terror attacks

By Robin Allen in London

The bombing of the military barracks in Dhahran on Tuesday night has raised fears of further attacks against US and other foreign military targets in Saudi Arabia.

Security officials are also likely to be worried about the size of the blast and the audacity shown by the bombers, who struck at one of the most secure facilities in the kingdom.

After a bomb in Riyadh last November, western diplomats and Saudi officials said the seriousness of the terrorist threat would be shown by any further attacks on foreign military sites.

The November attack was aimed at a lightly guarded training and communications facility located in an easily accessible residential neighbourhood of Riyadh.

But Tuesday's incident occurred at the heavily guarded King Abdul-Aziz airbase in Khobar, a sprawling military complex that is home to many of the allied aircraft which enforce the no-fly zone over southern Iraq.

The conurbation of Al-Khobar, Dhahran and Dammam also contains the headquarters of Saudi Aramco, the state petroleum company, which is the world's largest oil exporter and which employs large numbers of American and other expatriate workers.

Americans in the area were recently warned to be on their guard. But residents in the eastern province say scores of US military personnel in civilian dress were to be seen every day wandering through the streets.

Security at the base, however, was reported to be tight. This was particularly evident at the entrance to the complex, which houses thousands of Saudis as well as the US, British and French contingents attached to Southern Watch, the aerial supervision of Iraq south of the 32nd parallel.

The Al-Khobar Tower that was the target of the bombers was one of about 50 eight-storey residential blocks surrounded by a wire perimeter fence several miles long. "It is impossible to secure the full length of a perimeter fence this long," senior diplomats in Dhahran said yesterday.

The lorry carrying the explosives could not get through the main entrance. It stopped at an unsecured point outside the perimeter fence away from the entrance but only some 30-50 yards from the Al-Khobar Towers.

The US "has no intention of reducing its presence in Saudi Arabia", according to Mr Mike McCurry, the White House press secretary, yesterday.

Western diplomats also reported considerable Saudi support for the US presence. "The Saudis are saying the US should not leave. On the contrary the Saudi government should crack down harder on all forms of dissent," senior western diplomats quoted local Saudis as saying.

However, not all Saudis share this view. One employee of a British company was quoted as saying: "What are Americans doing in this country? These incidents will go on so long as there are Americans on Saudi soil."

Americans make up by far the largest contingent of foreign military personnel, including British and French, who either advise or train Saudi armed forces.

Unofficial sources in Riyadh say there are more than 50,000 US troops.

Since the Gulf war the US has had stationed several squadrons of F-15s and F-16s with inflight refuelling aircraft at the Dhahran airbase. These provide cover for the half-dozen or so British Tornado fighter aircraft which help monitor southern Iraq to enforce a UN resolution banning Iraq from using fixed-wing aircraft in the southern exclusion zone.

Israel plans $1.5bn budget cuts

By Julian Ozanne in Jerusalem

Israel's new government yesterday began preparing for expenditure cuts in an effort to curb rising budget and balance of payments deficits and intensify the fight against inflation.

Although details have yet to be finalised, officials said expenditure cuts of Shk5bn ($1.53bn) in the next 18 months were being considered to put the economy back on track, revitalise the flagging stock market and calm the concerns of local and foreign investors.

Mr Benjamin Netanyahu, the prime minister, has pledged to carry out far-reaching structural reforms of the economy. He held a second round of talks in a week with Mr Dan Meridor, finance minister, and Mr Jacob Frenkel, central bank governor. The Treasury said next Sunday's cabinet meeting would be devoted to reviewing the economy and the performance of the budget in 1995 and 1996.

Mr Meridor said the government would have to make a "considerable cut in spending" in order to curb inflation which has reached 15 per cent a year, up from 8 per cent last year and well ahead of the government's 1996 target of 8-10 per cent. He also said he intended to create a team that would convene every month to increase supervision and ensure that the budgetary targets were met.

A Treasury statement quoted the new finance minister as saying: "My intention is to force all of us to meet the budget targets – spending, revenue and deficit – and not to allow a significant deviation from them as occurred in 1995."

Israel has a domestic budget deficit reduction law requiring an annual cut in the deficit as a percentage of gross domestic product. But last year, in the run-up to elections, the government overshot its deficit target of Shk5bn, or 2.75 per cent of GDP, ending the year with a deficit about 3.5 per cent of GDP. Figures from the first four months suggest this year's domestic deficit target of Shk7.6bn, or 2.5 per cent of GDP, is well off-course and heading for 4 per cent of GDP.

Last year, the current account deficit grew from $2.5bn in 1994 to $4.1bn, or 4.7 per cent of GDP, and figures for the first four months suggest it will widen further this year to $5bn.

The co-ordinated government moves on the economy followed a 1.5 per cent rise in the central bank's key lending rate earlier this week to 17 per cent, its highest level for almost two years, amid continuing signs of inflationary pressures.

For the past 18 months, Mr Frenkel has insisted the battle against inflation must involve both tighter monetary and fiscal policy. Although the details have yet to be finalised, both Mr Frenkel and Mr Meridor have indicated they favour an immediate cut in the 1996 budget, of up to Shk3bn, and a deeper cut of Shk5bn from the 1997 budget. Such cuts would allow falls in both interest rates and the exchange rate and would revive the stock market.

● Arab guerrillas killed three Israeli soldiers on patrol in the occupied West Bank near the border with Jordan yesterday.

Political pall over Vietnam investment

Jeremy Grant on the problems tarnishing the image of a country once touted as an Asian business hotspot

There was a time when Vietnamese television's evening news would regularly feature foreign businessmen and local officials swapping smiles and handshakes at joint venture signing ceremonies.

But those days are gone. In the run-up to a landmark congress of the Communist party, which starts tomorrow, viewers have been treated instead to speeches delivered by party bureaucrats under plaster busts of Ho Chi Minh to rows of stony-faced officials.

The foreign businessmen have also lost their smiles. A catalogue of business problems has tarnished the image of a country once touted a south-east Asian investment hot spot.

"We have consistently advised our people not to consider investing here unless they are happy with payback starting after about six years. Not before," said one western diplomat. "It is not what people think."

The main worries are a constantly shifting legal framework, excessive and costly bureaucratic procedures, corruption, financing difficulties and an apparent lack of understanding by Vietnamese authorities and businessmen of the commercial norms that apply in any business, particularly abiding by contracts.

It was these problems that led the Hong Kong-based Political & Economic Risk Consultancy to conclude in March that Vietnam was the most risky country in Asia for foreign investors. It also said that it was the most stressful for expatriate staff.

The role of foreign investment in the country's development is but one theme in discussions during the congress, which ends on Monday. Foreign businesses are looking to Hanoi to make good on its frequent promises to improve the investment environment but, with the party diverted by leadership questions, little of immediate relevance to foreign investors is likely to emerge.

Indeed, the current ruling troika of Mr Do Muoi, the general secretary, Mr Le Duc Anh, president, and Mr Vo Van Kiet, premier, appears to have been voted a further term of office. If their tenures are officially re-confirmed on Monday, this indicates business as usual but is likely to focus foreign investors' minds even further on the country's reform process.

"There is one way of translating reform," said one European diplomat. "Do you allow foreigners to make money or not?' That's the key issue. They still haven't accepted the rules of the game they decided to play five years ago."

Official figures have already started to reflect the darkening mood. Licensed foreign investment slumped by 48 per cent in the first five months of this year over the same period last year, according to the ministry for planning and investment.

Only about a quarter of the total investment pledged – about $20bn – is at work in Vietnam, according to the World Bank and local officials.

Some companies have already voted with their feet and many more are scaling back plans.

Chrysler, the US carmaker, is unlikely to go ahead with all aspects of its planned $192m assembly plant near Ho Chi Minh City.

South Korea's Daewoo, the largest foreign investor in Vietnam with $600m in approved projects, went public this month with its complaints. Its Vietnam general manager spoke of "many problems, many problems".

One of them has been with the structure of joint ventures. Under Vietnamese law, decisions by a joint venture's management – such as budget, business plans and the appointment of personnel – are subject to unanimous consent. This gives the minority Vietnamese partner veto power even if the foreign side has management control under the contract.

The problem is made worse by capricious decision-making by local authorities, often acting in contravention of laws issued by Hanoi.

Mr Do Duc Dinh, a government economist, acknowledges the problems but indicates that an immediate solution is unrealistic.

"The government understands this (problem) but ... now the provinces have money, and money means power in certain cases."

Meanwhile, investors draw little comfort from the anti-foreign rhetoric that has appeared recently in the Vietnamese press. In one case, at the end of last month, President Anh warned in The People's Army newspaper that linking up with foreign investors could threaten the country's independence, "damaging our country's long term and basic good".

To some extent, these suspicions are understandable. There have been many cases where foreign companies, particularly Asian ones, have used joint ventures as dumping grounds for second-hand technology.

And there is also temptation to play down the role of foreign investment, as long as generous commitments of cheaper, Overseas Development Assistance, or aid, continue to flow in.

But for Mr Dinh, there will be little change in Vietnam's approach to foreign investment: "For the general direction of policy, I'm sure it's moving in a positive direction. There is no way back. But in the implementation, there may be some changes, a slowdown."

Third mobile phone network is launched

By Jeremy Grant in Hanoi

Vietnam Posts & Telecommunications (VNPT), the state telecoms monopoly, yesterday launched the country's third mobile phone network, which it said was another step in deregulating the country's fast growing telecoms sector.

Industry experts said that the system, wholly owned by VNPT, seemed the first serious attempt by Vietnam to try to build the country's embryonic telecoms infrastructure without foreign involvement.

VinaPhone, as the new system is called, will be available in 18 out of Vietnam's 53 provinces once VNPT installs switching systems and base stations bought from Siemens of Germany and Motorola of the US last year under a $17.3m contract.

Demand for mobile phones is soaring in Vietnam. Industry estimates show there were 35,000 Vietnamese and foreign users as of this month, against only 300 in 1993, when the service was introduced.

Of the two existing systems, one in Ho Chi Minh City is operated by Singapore Telecom and the other, MobiFone, available since July last year, is run by a VNPT unit, Vietnam Mobile Services (VMS), under a $345m revenue-sharing deal with Comvik, part-owned by Stockholm-listed Kinnevik.

Industry experts questioned whether VNPT had the experience to operate a third system, pointing out it would be competing head on with MobiFone. "They [VNPT] certainly lack the planning ability and we don't even know if they have a billing system," said one.

"I believe the bet is going to be on customer services, value-added services and the cost of entry," Comvik International Vietnam's managing director, Mr Magnus Mandersson, said.

Mr Mai Liem Truc, VNPT's general director, said the new system was part of a policy to increase competition in telecoms. "We want to have some diversity to secure our services."

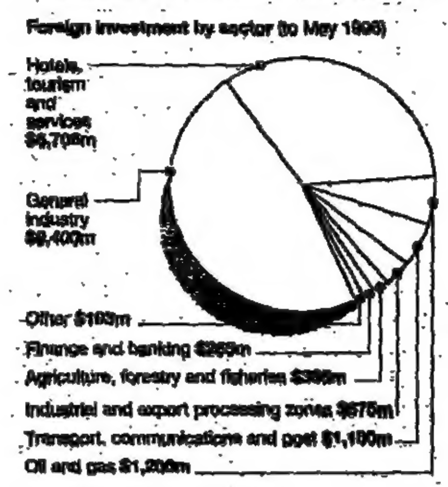
Four contracts with foreign companies, worth a total $1.4bn, to install land lines in Hanoi and Ho Chi Minh City would be signed soon, Mr Truc added.

The contracts, under negotiation between VNPT and Telstra of Australia, NTT International of Japan, Cable & Wireless of the UK and France Télécom, have stalled because of differences over traffic projections and revenue sharing.

Mr Truc said there would be further delay due to the planned privatisation of a third of Telstra and changes to top management at France Télécom in Paris. "But I don't think it will be a long delay. We'll have the contracts soon," he said.

Vietnam: the main attractions

Foreign investment by sector (to May 1996)



Source: Ministry of Planning and Investment

Purposeful Vietnam: a military technician installing telephone lines in Hanoi. The country had only 550,000 telephones in late 1995 but nearly double that by the middle of this year.

HEINEKEN WINS LICENCE FOR SECOND BREWERY

Vietnam has granted Heineken a licence to open a second brewery in the country. The Dutch group said yesterday that it and local partners were making a $190m investment in "a key growth market which is expected to continue to grow in the years to come", writes Gordon Cramb in Amsterdam.

Its Singapore-listed Asia Pacific Breweries affiliate will own 55 per cent of Hatay Brewery, located just south of the capital Hanoi. The local Hatay Food Company will hold 38.5 per cent, while the remainder is to be owned by Vietnam Brewery, Heineken's existing joint venture operation in Ho Chi Minh City.

The new facility, producing the Heineken and Tiger brands, is due to be completed in early 1998 with an annual capacity of 600,000 hectolitres. While this will be only a third of the size of the existing brewery, it represents a breakthrough in the north of the country where investment approvals have often been more difficult to obtain.

Brussels warms to Japanese chip proposal

By Guy de Jonquières in London and Michiyo Nakamoto in Tokyo

The European Commission has welcomed a Japanese proposal that governments of the main semiconductor-producing countries meet regularly to discuss trade liberalisation and policy issues affecting the industry.

Japan hopes such an arrangement would make it easier to deflect political pressure from the US, which is demanding that the two countries renew a controversial semiconductor trade agreement which expires at the end of next month.

However, Japan's initiative also marks a partial retreat from its earlier insistence on the principle that governments should have no direct involvement in the industry's affairs.

The proposal follows Japan's recent call for a World Semiconductor Council, in which leading producers would exchange market data and co-operate on technical matters such as standards and environmental issues.

The European Commission favours the Japanese proposals, because it views them as another opportunity to push its long-standing demand that US-Japan arrangements on semiconductor trade be widened to include the EU. However, Washington has responded coolly. Though it has welcomed Japan's readiness to concede a role for governments in the semiconductor industry, the US says the plan does not go far enough because it does not cover foreign producers' access to the Japanese market. The US also refuses to include Brussels in discussions with Japan until the EU commits itself to abolishing its semiconductor tariffs, the highest in the industrialised world.

Japan objects that its five-year-old agreement with the US amounts to managed trade, because it sets numerical targets for foreign chip makers' share of the Japanese market. The EU has condemned the agreement, concluded under threat of US trade sanctions, as discriminatory.

Washington says it is ready to accept a new agreement without numerical targets, though it wants the two governments to continue to monitor sales and market share data. Tokyo says the US still wants guarantees of market share and other provisions which would violate world trade rules.

Japan proposed a "Global governmental forum on the semiconductor industry" in talks in Brussels last week. "We need to discuss the idea more thoroughly, but our positions are close," a senior Japanese official said.

Japan is considering complaining to the World Trade Organisation about Kodak's domination of the US photographic film market, following the recent US complaint in the WTO that Kodak faced anti-competitive trade barriers in Japan writes Guy de Jonquières.

A Japanese official said said Fuji, Japan's biggest film company, had said that Kodak had sharply increased its US market share since it was released from an anti-trust consent decree last year.

The two sides have agreed in principle that the forum should aim to include all the main chip-making countries, comply fully with World Trade Organisation rules and eschew government intervention in semiconductor markets.

Japan has suggested that the forum hold annual talks on issues including removing trade and investment barriers in the industry, taxation, regulation, scientific research and promotion of the information society.

US President Bill Clinton has written to Mr Ryutaro Hashimoto, Japan's prime minister, calling for tangible progress on semiconductors, and in bilateral disputes over insurance and civil aviation, before tomorrow's G7 summit in Lyons.

Input of DM450m will mean initial assembly of 72,000 units a year

GM agrees Polish car plant

By Kevin Done, East Europe Correspondent

General Motors, the world's largest vehicle maker, has reached final agreement with the Polish government over its plan to build a car assembly plant at Gliwice, near Katowice, southern Poland.

In an exchange of letters, the two sides have agreed terms for the project, in which GM will invest at least DM450m ($296m) in a plant initially to produce 72,000 cars a year.

Mr David Herman, chairman and managing director of Adam Opel, GM's biggest European subsidiary, said building work was expected to start by the end of July and production begin at the end of 1998.

The Gliwice facility would be an integrated car plant with metal stamping, body welding, paintshop and final assembly. The share of local content would reach 60 per cent after 2-3 years.

The key to finalising the deal was a Polish government decision to establish a special enterprise zone to include the proposed facility.

The GM investment has been welcomed by the government as a source of new jobs in a region restructuring from the old mining and heavy industrial sectors.

By locating the plant inside the Gliwice zone, GM will pay no tax on profits for the first 10 years and will enjoy a 50 per cent reduction in taxes on profits for a further 10 years. Corporate profit tax is 40 per cent in Poland.

The US vehicle manufacturer will also be able to import machinery and equipment for the plant duty-free and will be able to import components duty-free from the European Union.

The 70-hectare site will be purchased at market price, but the local authorities will supply assistance for training and will provide the necessary infrastructure including road and rail connections.

GM is planning to produce a low-cost family car based on the current Opel/Vauxhall Astra, for sale mainly in the transition markets of central and eastern Europe.

Between 60 and 70 per cent of output will be sold in Poland, the biggest new car market in central Europe, where new car sales have risen 32.8 per cent in the first five months this year.

GM had previously told the Polish government it was examining the possible expansion of the plant in a second phase with the investment of a further DM250m-DM350m to raise capacity to 150,000 cars a year. It would add production of a second range of smaller cars still under development and for sale throughout Europe.

S Korea spurns US tariff pleas

By John Burton in Seoul

South Korea is not expected to make any new trade concessions soon because of its growing trade deficit, in spite of pleas yesterday by visiting US and EU officials to open its car and telecom markets.

Korea has "the most closed automobile market in all of the developed world", said Mr Mickey Kantor, the US commerce secretary, in Seoul. Mr Stefano Micossi, the director-general of the EU's industry directorate, also called for cuts in tariffs on cars and for a reduction of non-tariff barriers, such as easing a complex certification process.

Mr Kantor added that the US "staunchly and strongly" supported Korea's bid to join the Organisation for Economic Co-operation and Development this year, but noted that only one of the group's six subcommittees had approved Korea's entry so far. The OECD still has concerns about such areas as financial liberalisation, direct investment, intellectual property rights protection, labour rights, and environmental standards.

Korean officials responded cautiously to demands for the immediate lowering of trade barriers. "The US and Korea have the same goal as far as market liberalisation is concerned, the only differences have to do with timing and speed," said Mr Lee Suk-chae, the minister of information and communications.

"This is probably the worst possible time for the US and the EU to demand a market opening because of Korea's widening trade deficit," said Mr Eugene Yun, head of research at Deutsche Morgan Grenfell in Seoul. The government predicts that the trade deficit could reach a record $11bn this year.

Both the US and EU have complained about the limited number of foreign cars sold in Korea.

Korea imported 6,000 vehicles from the US and 4,300 from the EU last year, while it shipped 101,000 cars to the US and 180,000 to the EU.

Mr David Muir, head of Inchcape Motors in Korea, which sells General Motors cars, predicts that foreign carmakers could gain 7 per cent of the market, as much as they hold in Japan, within five years.

The US and the EU are also seeking an expanded opening of the Korean telecom market, which has been dominated by domestic equipment manufacturers. The EU yesterday held a new round of talks in Seoul on telecom procurement issues after it filed a complaint with the World Trade Organisation last month on market restrictions in Korea.

Unions urged to play bigger role

By Robert Taylor, Employment Editor, in Brussels

Mr Michel Camdessus, managing director of the International Monetary Fund, yesterday urged trade unions to make an active contribution towards maximising the benefits of globalisation.

Making the first speech by an IMF head to the International Confederation of Free Trade Unions, Mr Camdessus said trade unions had a key role to play in the growth of the global economy. "The world's common good will be greatly helped by the unions using their strength and their place at the table to help workers adapt and engage employers and governments in dialogue to ensure that those who are unemployed through structural change are helped to retrain, to find new jobs and to carry their entitlements from job to job," he said.

Mr Camdessus spoke of the positive impact of trade liberalisation in front of a union audience seemingly hostile to the development of a more global economy. "Companies that invest in plants in developing countries generate increased demand for parts and inputs from the developed countries where the investment originated," he said. However, Mr Camdessus recognised union fears that a global labour market allowed low-paid workers in developing countries to undercut wages of the less skilled workers in developed countries. But he said part of the solution lay in increasing economic growth rates to "sustainable levels and reducing the range of fluctuations which have reduced firms' willingness to invest and employ more workers".

However, the IMF director said "the permanent pressure of strong trade unions" in dialogue with governments and employers internationally was necessary to ensure higher growth and employment. "Countries need to adapt to the reality of the marketplace," he added.

Mr Camdessus acknowledged that the market alone was not sufficient to solve global problems. "We also need the hand of justice guaranteed by the state," he said. "This sets the framework under which markets can work reliably and efficiently, including the rules governing workers rights."

Mr Camdessus' views of globalisation were not shared by Mr Bill Jordan, the ICFTU's general secretary. He said the global market was being driven by "economic warlords, without compassion or conscience" who were creating "a world where greed is a virtue and competition a religion".

Merrett Names group backs recovery plan

By Ralph Atkins, Insurance Correspondent

A group representing 2,000 loss-making Lloyd's of London Names yesterday took a decisive step towards ending legal action at the insurance market.

The committee of the Merrett Names' Association voted unanimously to recommend that its members accept Lloyd's recovery plan – as far as it relates to litigation being pursued by the association.

The recommendation stopped short of an unqualified endorsement for the plan, called "reconstruction and renewal". It also depends on the final wording of an agreement with Lloyd's being acceptable.

But the committee's decision is the first such move by a Lloyd's Names "action group" since the insurance market last Friday sent individual details of the plan to all 34,000 Names worldwide. Names are individuals whose assets have traditionally supported the market.

The move is expected to set a precedent for other meetings by action groups over the next few weeks.

The committee has left it for individual Merrett Names to accept or reject the plan by the August 23 deadline. Many were hit by losses from other syndicates, as well as those run by the Merrett agencies.

However the committee concluded that continuing legal action for losses incurred by Merrett syndicates would not produce a better result than under the recovery plan. If the recommendation is endorsed by Merrett Names at a general meeting on August 1, the association will drop outstanding litigation once the recovery plan is implemented.

LLOYD'S
LLOYD'S OF LONDON

In addition, Mr John Mays, group chairman, yesterday gave his personal endorsement to "reconstruction and renewal" proposals.

Merrett Names lost heavily as a result of US asbestos and pollution-related claims but last year won a court judgment saying they were the victims of negligence. At the time, Mr Mays said the association would seek £300m damages. He refused to say how much Merrett Names would receive under "reconstruction and renewal".t

Bank shifts towards Swiss model

Radical changes follow international widening of client base

By George Graham, Banking Correspondent

The 300-year-old Coutts & Co is among the most history-laden of private banks. But the radical restructuring it will announce today places it in the front ranks of a management revolution sweeping the sector.

Tradition is an important ingredient in private banking, both in small matters such as the frock coats still worn by Coutts staff, and in larger matters such as the intensity of service expected by wealthy clients.

But the relatively high returns that can be earned have attracted new competitors and forced the traditional private banks to think again.

Coutts, a subsidiary of the NatWest group, found it had evolved into a red carpet version of an ordinary retail bank.

But a very large proportion of its profits came from the small number of customers – probably no more than 10 per cent of the client base – who came to the bank for a wide range of financial services.

Coutts's first answer was to strengthen its asset management capacity by recruiting investment managers and financial planning specialists.

A year ago, however, Mr Herschel Post, the bank's chief executive, decided that it was "not enough just to bring in more specialists".

Working with management consultants Price Waterhouse, Coutts has now decided to do away with its hierarchical management structure. In which a client would be more likely to deal with a mid-level banker than with a senior executive or an investment manager.

Instead, private bankers will be organised in 30 teams, each headed by a top level executive reporting directly to Mr Post, and each able to provide a full range of financial planning and investment management services to its 75-100 clients.

Coutts is trying to move from the style of a conventional town centre bank to the flatter structure that characterises some of the even more traditional Swiss family partnership private banks – although Mr Post prefers a comparison with Mercury Asset Management, the fund management group.

The bank's customers, too, are evolving. "I think there was an image that Coutts's clientele consisted primarily of landed gentry, and we are delighted to have them. But the typical client today is just as likely to be an American or French investment banker over here on assignment," said Mr Post.

Coutts's next branch will be in Canary Wharf, a hotbed of investment bankers from outside Britain.

As Coutts tries to step up its service to this kind of customer, Mr Post insists that it does not plan to try to weed out less profitable customers who only want a cheque book and an overdraft. For one thing, most customers know or are related to other customers.

A Coutt's messenger offers customers a traditional welcome

The changes will be expensive, involving an increase in the number of highly trained and highly paid people dealing directly with clients.

To find the money to pay for that, Coutts has looked for savings in its back office, and has found room to cut more than 170 jobs. A review of other sectors is now under way, and could result in a similar level of job cuts next year.

Brussels allocates beef compensation grants

By Deborah Hargreaves in London and Neil Buckley in Brussels

European Union farm ministers yesterday agreed on how to share out an Ecu850m ($1.05bn) support package for farmers hit by the collapse in the beef market caused by the "mad cow" crisis.

Heads of government at last weekend's Florence summit agreed to increase total compensation to farmers from Ecu650m to Ecu850m. Farm ministers agreed to allocate just over 30 per cent in the increased aid on a national basis, with the rest distributed through increased subsidies for cattle.

Farmers will receive an extra Ecu23 per head for male cattle, and Ecu27 for milk cows, as "premiums" over the respective Ecu108.68 and Ecu144.9 subsidies they already receive.

The remaining Ecu269m will be shared out among EU states according to the size of their cattle herds. Member states are free to decide how to use this money, and how it should be targeted. The UK was allocated Ecu34m against Ecu51.5m for Germany and Ecu66.5m for France, which has the EU's largest cattle herd.

France secured an agreement that member governments could supplement EU support for one year with their own aid, up to an amount equal to their share of the total EU package.

Some of the steps to eradicate BSE in the UK, agreed at last week's Florence summit, such as stricter controls in abattoirs are already under way but it could take over a year to set up an electronic database to track cattle movements as required by the European Commission.

Mrs Angela Browning, junior agriculture minister, said the current schemes for eradicating BSE would cost £2.5bn ($3.8bn) over the next 3 years. But the government is still in discussions with farmers over compensation levels for the selective cull of cattle most at risk of contracting BSE.

The cost of setting up a cattle database is estimated at between £3m and £5m. Meanwhile all live cattle will be issued with paper passports to record their movements to and from farms. They will also be required to have two ear tags as a security measure to make their identity much harder to forge.

The government has also earmarked £37m to improve standards in abattoirs, according to Mr Johnston McNeill, chief executive of the Meat Hygiene Service which is responsible for overseeing slaughterhouses.

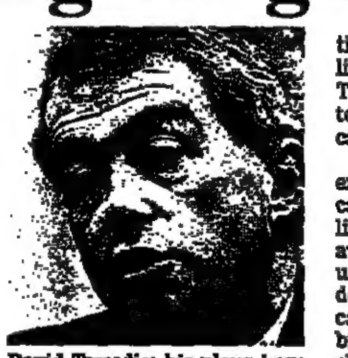
Standards board to alter accounting for goodwill

By Jim Kelly, Accountancy Correspondent

Large UK companies will be able to preserve brands on their balance sheets at the purchase price under plans published yesterday by the Accounting Standards Board.

The move would leave the UK out of step with international standards and the US but both standards authorities and the US are understood to be studying the ASB's proposals and may follow suit.

The preservation of brands on the balance sheet will be welcomed by companies such as Guinness but attacked by those who rely on "home grown" brands – such as Marks & Spencer.



David Tweedie: his plans have won qualified support

Sir David Tweedie, chairman of the ASB, has put forward the proposals in a draft accounting standard on goodwill and intangible assets – an issue which has defied solution for nearly two decades.

The signals yesterday were that Sir David's plans would win qualified support even though they would outlaw the way in which most UK companies now account for goodwill – the difference between what a company pays for another company and the net fair value of the assets.

Current UK practice allows a choice between writing goodwill off to reserves – not normally allowed outside the UK – or capitalisation on the balance sheet and enforced amortisation, which depresses future reported earnings.

Sir David proposes that goodwill should be treated like an asset – capitalised and amortised – bringing the UK into line with the rest of the world. This should make no difference to the share price as future cashflows are not affected.

But companies can escape enforced amortisation if they can show that the goodwill, like a brand, has not wasted away. They would do this by using an "impairment test" designed to predict future cashflows flowing from a brand, publishing title, franchise or other goodwill.

Mr Nigel Turnbull, finance director of Rank Organisation, said: "Obviously the people used to writing everything off will be disappointed. But those who want to maintain the value of brands have the ability to do so. If the ASB makes the case internationally FDs will be pleased."

Mr Peter Holgate, technical partner with Coopers & Lybrand, said: "I am particularly encouraged by reports from the International Accounting Standards Committee that other countries, and the IASC itself, are interested in following the approach."

Airline collapses after safety scares

By Michael Skapinker, Aerospace Correspondent

Excalibur Airways, the British charter airline, yesterday failed after safety scares on its aircraft caused a collapse of consumer confidence.

Mr Andrew Peters of accountants Deloitte & Touche, who have been appointed provisional liquidators, said the airline had lost £1m ($1.53m) over the past three months and had total liabilities of at least £5m. Mr Peters said he hoped to find a buyer for the airline, which has 180 staff.

Mr Peters said the airline had "many thousands" of bookings and about 3,000 customers stranded overseas.

He believed the operators and agents were covered by bonds organised by the Association of British Travel Agents and so could arrange to bring their customers back to Britain on other airlines.

Excalibur has recently suffered bad publicity over two delayed flights. The first was delayed in Orlando, Florida, after passengers saw black smoke on board. Passengers refused to board the aircraft in spite of assurances that it was safe. The second delay occurred in Manchester, England, this week when the aircraft suffered a cracked windscreen and other technical problems.

Mr Peters condemned media coverage of the two events as "sensationalised".

He said reporting of the events resulted in a collapse of consumer confidence early in the summer season when charter airline finances were at their weakest. He said the company had been negotiating with a potential new investor but these talks broke down earlier this week.

Excalibur, which is owned by Globespan, the Edinburgh-based tour operator, had one leased DC-10 aircraft and had planned to lease two more. Globespan has not itself gone into liquidation. The airline provided flights from London's Gatwick airport, East Midlands airport and Manchester to Orlando. It had planned to begin flying to Australia.

Corporate governance global code proposed

By William Lewis in London

Sir Colin Marshall, chairman of British Airways, yesterday called for the establishment of worldwide corporate governance guidelines for investors and companies.

Speaking at the first annual meeting of the International Corporate Governance Network (ICGN) in London, Sir Colin said that he did not "want new burdens or regulation; rather we should look for a universal set of guidelines or a code of conduct".

Sir Colin said that the globalisation of business was leading to the development of international corporate governance standards on a voluntary basis. "I believe that we should have a two-tier governance system, one at national level and the other, international."

Institutional investors and companies in the UK follow the Cadbury and Greenbury corporate governance codes, but US pension funds investing in the UK have complained that these codes differ from US governance codes.

Mr Richard Regan, chairman of the ICGN conference and head of investment affairs at the Association of British Insurers, said yesterday that he hoped the 70 conference delegates from 11 countries would agree on a basic set of principles including:

- Institutional shareholders should vote at company meetings.
- Company directors should have to regularly submit for re-election by shareholders.
- Anti-takeover devices at companies are undesirable.
- One share should equal one vote.

UK NEWS DIGEST

Doubts on price in nuclear sale

The government admitted yesterday it might raise as little as £1.26bn ($1.92bn) from the sale of British Energy, the nuclear power company which is being floated on the stock market next month. The offer prospectus, published yesterday, said the market value was expected to be £1.26bn to £1.96bn. This is an unprecedentedly wide range for a privatisation, and underlines the unique difficulty of pricing the world's sole nuclear-only power generator.

The government is raising a further £700m in debt loaded on British Energy, which would give total proceeds of £1.96bn-£2.66bn. Only if the government hits the top of its target range will it raise the £2.6bn it planned when the privatisation was announced last year.

Launching the prospectus, Mr Ian Lang, the trade and industry secretary, said the sale marked "the culmination of the privatisation of the electricity industry". The company is being sold in an international tender offer for institutional investors and a separate discount offer to UK retail investors. The price will be set in the tender early next month, but the prospectus indicated a range of 180p to 280p a share. UK retail investors will get 5p a share discount, paying 100p as a first instalment compared with 105p for institutions. The 1.7m investors who have registered for the offer at share shops – designated sales outlets – will get a 1-for-15 bonus issue or a 10p discount on the second instalment, which is payable in September 1997. *Stefan Wagstyl and Simon Holberton*

Insider dealing alleged

A former director of Eastern Electricity – the privatised utility – has been charged with insider dealing over his alleged purchase of shares in Seeboard, another regional electricity company, the Department of Trade and Industry confirmed yesterday.

Dr Douglas Swinden, a former corporate strategy director of Eastern Electricity, faces two charges which both allege that in August 1994, he bought 2,000 Seeboard shares contrary to new insider dealing legislation.

The charges claim that the share purchase was made on August 1 1994, after Dr Swinden allegedly saw a letter written a week previously by Professor Stephen Littlechild, the electricity regulator, to Mr John Devaney, Eastern's chief executive. The letter contained information about Seeboard, it is claimed. Dr Swinden appeared at City of London magistrates court on April 25. His trial is expected to start on November 18 this year at Middlesex Crown Court. He has been given unconditional bail until then.

Eastern Electricity said the matter was a private one for Dr Swinden. However, the company added: "I understand he is to mount a robust defence." Dr Swinden could not be contacted yesterday. *John Mason, Law Courts Correspondent*

Exchanges to merge in September

The London International Financial Futures and Options Exchange (Liffe) and the London Commodity Exchange (LCE) are planning to complete their merger by mid-September, according to formal proposals announced yesterday. Liffe is offering LCE shareholders £1.27 ($1.94) for each ordinary share, valuing the smaller commodity exchange at approximately £10.3m.

The deal, which brings together Europe's biggest financial and commodity futures markets, was originally agreed last year. The merged entity will be the only exchange in the world to offer trading in futures and options on financial, commodity and equity index products, as well as options on individual entities, according to Mr Daniel Hodson, chief executive of Liffe.

As well as buying LCE's shares, Liffe is simultaneously inviting subscriptions from LCE members, existing Liffe members and others for up to 250 new "F" shares in Liffe (Holdings) at a price of £15,000 each. Holders of "F" shares will be able to become commodity members of the merged Liffe/LCE market and take up rights to trade the commodity futures and options contracts being transferred from LCE to the merged market. The first closing date of the offer will be 23 August, the final closing date 6 September, with the new merged market opening on 16 September. *Richard Lapper, Capital Markets Editor*

Royal palaces cut costs

Government funding for the occupied royal palaces has been cut by 25 per cent through savings to £20.44m ($31.21m) in 1996 since Buckingham Palace took over their upkeep in 1991. The annual report by the director of property services, forecasts that further efficiencies should take the figure below £15m by the end of the century.

The report confirms that work on fire-damaged Windsor Castle is 65 per cent complete and within budget at less than £40m. The modernisation of the royal finances has helped produce some spectacular savings – expenditure on gas has fallen 37 per cent in real terms thanks to energy conservation and other measures. Big projects planned in the next five years include the rewiring of Clarence House and the establishment of a computer database on the palaces.

Grant-in-aid is one of the expenses provided by the government – in return for the surrender by the Queen of the net surplus of the crown estate and other revenues which amounted to £88m in 1994-95. *Jim Kelly, Accountancy Correspondent*

Mail and Tube workers strike

Hopes that today's second one-day mail strike may be the last rose yesterday after the executive of the CWU postal workers' union decided against calling fresh stoppages. Discussions with Royal Mail on working arrangements will continue next week, and the union said it would consult its branches and reconsider the situation in the light of the "outcome of further negotiations".

- Commuters on London Underground trains face worsening industrial action after today's one-day strike over pay and hours by Aslef, the train drivers' union. A larger rail union, the RMT, said it would ballot all of its 6,000 Tube members on a series of one-day strikes in pursuit of a claim for shorter working hours. The RMT, which is seeking an extra five days' holiday for its members, said it would co-ordinate strikes with Aslef, which has already called further one-day stoppages on July 3, 8 and 16. *Andrew Bolger, London*

Scheme to cut 30% from building costs is launched

By Andrew Taylor, Construction Correspondent

An initiative to reduce the cost of building chemical works, oil refineries and other process plant by up to 30 per cent in the UK will be launched today by senior industry leaders and the Department of Trade and Industry.

Some 30 companies including customers such as National Power, Powergen, Conoco, Du Pont, Zeneca, and Shell and contractors Amec, Taylor Woodrow, John Brown, Fluor Daniel and MW Kellog are supporting moves to cut more than £10bn ($15.3bn) from construction costs over the next three years.

Mr Tim Eggar, industry minister, hopes the initiative will achieve substantial cost savings and make Britain a more attractive location for inward investment by international petrochemical companies. US petrochemical companies previously have criticised UK construction costs for being up to 20 per cent higher than for some rival locations on the Europe and mainland.

The industry department commissioned studies to see if these complaints were valid but said that evidence on costs was inconclusive.

What was clear was that some investors continued to believe that construction in the UK remained relatively expensive, said the department.

The cost-cutting efforts will include encouraging the use of standard forms of contracts and construction components, more efficient tender procedures to reduce bidding costs as well as closer co-operation between customers, designers, contractors and component suppliers to improve construction and operating processes.

To achieve these aims the companies have founded a new organisation to be called Achieving Competitiveness Through Innovation and Value Engineering (Active). This will develop industry guidelines on a wide range of procurement and construction practices.

Similar initiatives previously have been supported by the industry department in the offshore oil and gas, aerospace and vehicle sectors.

Mr Eggar said yesterday that the offshore oil and gas industry was already achieving savings of 30 per cent on new developments since the first of these initiatives was launched in 1992. He said: "The results have been very encouraging. In some instances single components have been studied from their end use, back through the construction process to their original supplier to see where designs can be simplified and improved."

Capital expenditure by process industries, including water treatment and power generation, was expected to total about £40bn in the UK over the next three years.

Annual subscriptions to join Active are likely to be £5,000 with the organisation expected to have completed its work within three years. Mr Eggar stressed that the government had not paid any money to aid Active although it strongly supported its aims and would help wherever it could.

Genetic conflict

Research into breast cancer has highlighted concerns about the use of information, says **Clive Cookson**

When Jeremy Rifkin, a longstanding campaigner against the biotechnology industry, launched a worldwide "genetic rights movement" in Washington last month, two particular genes acted as a focus for the 250 organisations taking part: the breast cancer susceptibility genes.

BRCA-1 and BRCA-2, as they are called, have crystallised concerns about the handling of human genetic information – for example, whether the discoverers of new genes should be allowed to patent them; how genetic tests should be made available to patients; who else should have access to test results; and how people should be protected against the misuse of genetic data by insurers, employers and others.

The international competition to identify the first breast cancer gene was probably the most publicised scientific "race" of the 1990s. And when the winners – Myriad Genetics, a Utah-based biotechnology company, working with the University of Utah – promptly sought a very broad patent over BRCA-1 in 1994, there was considerable disquiet. Opposition came not only from "genetic interest groups", arguing that genes are natural human blueprints which should not be patented, but also from other scientists who had co-operated with the Utah group during earlier stages of the research.

"What they did to their collaborators was quite offensive," says Gordon McVie, director of the Cancer Research Campaign, a UK charity. "We were incensed when, having contributed all the UK families to help this group get the structure of the gene, we were suddenly shunned. I don't think there has been a better example of what scientists fear about the commercialisation of their work."

Then, last December, the Institute of Cancer Research and Cancer Research Campaign held a news conference in London to announce that their researchers had won the race to find the second gene – only to be trumped by a statement from Myriad later the same day, saying that it had got there first. Although both groups have filed patent applications on BRCA-2, and earlier this year there were tentative discussions between them over working together to exploit the discovery, Myriad says it is sufficiently confident about the strength of its claim to proceed on its own.

But CRC Technology, the charity's technology transfer arm, is standing firm. "We believe that we have a very strong position on the patenting of BRCA-2 and we are in discussion with the academic and commercial sectors about the best way to exploit the technology, first for diagnostic tests and then for therapeutics," says Emma Plummer, a business manager with CRC Technology. "We do not want it to come to a big patent battle in the courts, but if neither side backs down it could come to that."

McVie says CRC is looking for "a partner robust enough to take on Myriad and establish a cross-licensing deal so that they do not have a monopoly on both genes".

Although there are almost certainly other "breast cancer genes" waiting to be discovered, BRCA-1 and -2 are responsible between them for most cases of familial breast cancer, the inherited form of the disease that particularly affects younger women.

Research by the US Centres for Disease Control, published in the journal Cancer this month, suggests that mutations in the two genes are responsible for 7 per cent of breast cancer cases – and 10 per cent of ovarian cancer – in the general population. The proportion of women with breast cancer carrying one of the defective genes ranges from 33 per cent in the 20-29 age group to 2 per cent in the 70-79 group.

In fact, talking about breast cancer genes is an oversimplification. Everyone carries two copies each of BRCA-1 and -2. When functioning properly, both produce a protein that helps to suppress the growth of cancer cells in the breasts and ovaries. Researchers have identified more than 100 mutations of both genes. A woman who inherits one defective version of the gene in all her cells, because of an inherited mutation, is vulnerable because the second copy may be damaged, for example by exposure to environmental carcinogens, in a few cells. Then the brakes on uncontrolled proliferation are removed and she is likely to develop cancer.

Scientists from Vanderbilt University and the University of Washington recently suggested that BRCA-1 enables breast and ovarian cells to secrete a protein that suppresses tumour growth. This could potentially be developed into a valuable anti-cancer drug; if so, Eli Lilly, the US pharmaceutical giant that has licensed therapeutic rights to Myriad's BRCA-1 patent, will be in a strong position.

But most of the important scientific questions about the breast cancer genes are still unanswered. No one knows what BRCA-2 does, how its biochemical pathway relates to that of BRCA-1, or why these genes affect cancer in some tissues but not in others. (BRCA-2 is much less active than BRCA-1 in the ovaries but appears to be responsible for some prostate cancer in men.)

Meanwhile, Myriad is about to start final trials of a diagnostic test for BRCA-1 at 14 cancer centres; its commercial launch is expected late this year. The company says a combined test for BRCA-1 and -2 will be available next year.

But non-commercial testing for breast cancer genes is already under way at several centres. The Royal Marsden hospital in London offers a BRCA-1 test with support and counselling for women with a strong family history of breast cancer (at least four previous cases in close relations less than 60 years old) and it expects to begin testing for BRCA-2 within two months.

"Many women with a strong family history of breast cancer suffer great anxiety through not knowing whether or not they have the defective gene," says Ros Eeles, who runs the Royal Marsden's genetic testing programme. "The test can, for those who want it, do much to relieve that uncertainty."

Peter Meldrum, chief executive of Myriad, says his company's commercial tests will "only be available through a physician, with appropriate counselling". There is no question of such tests ever being sold over-the-counter.

Even so, some patient groups, such as the US National Women's Health Network, claim that in the present state of medical knowledge, testing offers women few advantages and many possible adverse effects – including "devastating psychological effects" not only on the individual being tested but on her whole family. "Until we have effective prevention strategies, tests for 'cancer genes' benefit mainly the commercial companies that market them, who stand to make huge profits by exploiting women's justifiable fear of cancer," they say.

Mike Stratton, leader of the international team that discovered BRCA-2 at the Institute of Cancer Research, London, agrees that there is still much medical ignorance – for example about the psychological consequences of testing and the best preventative tactics for carriers of breast cancer genes. Some young women go so far as to have "preventative mastectomies" – both breasts are removed surgically to reduce the risk of cancer – while others settle for frequent monitoring.

But Stratton adds: "We are living in a society that has given people more and more information about themselves. It is very paternalistic to start saying we don't think you should have access to this particular information."

And there are positive aspects of screening, most notably for women who find that their genes are normal and therefore they are not at unusually high risk of developing breast or ovarian cancer.

One risk of genetic testing emphasised by Rifkin's Foundation on Economic Trends is that the results could get into the wrong hands – particularly those of health and life insurance companies. The threat of being deprived of health insurance is more serious in the US than the UK where the National Health Service provides a medical safety net.

On the issue of genetic privacy, Myriad agrees with Rifkin's campaign. "Thirteen states [in the US], including California and New York, have passed legislation preventing insurance companies making use of genetic information," Meldrum says approvingly. "We strongly support any legislation that prevents the misuse of genetic information."

The series on human genes continues next month with a look at heart disease.

Worth Watching · Vanessa Houlder

Lighter stretcher to the rescue

A lightweight, inflatable stretcher could speed up mountain rescues by allowing the search party to carry the casualty to safety without waiting for a separate stretcher party.

The stretcher, designed by students at London's Royal College of Art, weighs less than 4kg and can fit into the standard mountaineering rucksack of a search party member.

The stretcher consists of two canisters of polyurethane foam and an uninflated nylon fabric stretcher. The rescuer injects foam into the fabric which expands and hardens to form the stretcher; the canisters then become the stretcher handles. The cost of the stretchers would be £200, if mass-produced.

Royal College of Art: UK, tel 44 (0)171 5845020; fax 44 (0)171 584 8217.

Inspection for undersea pipeline

Undersea pipelines are traditionally inspected using a video camera attached to a remote-controlled vehicle travelling inside the pipeline tunnel, *Paul Taylor writes.*

But these systems are slow and labour intensive as they involve viewing many hours of video tape of barely visible images.

Now Silicon Graphics, the high-performance computer manufacturer, Norske Shell, the Norwegian subsidiary of Royal Dutch/Shell, and Morrison McLean, a Scotland-based software developer, have introduced a simulated virtual reality system that was used to inspect the recently completed 3.7km Shell Troll pipeline tunnel under the North Sea.

The system, based on a Silicon Graphics Onyx computer system, can pinpoint a fault using remote sensors which feed data to a computer model. The features are then mapped on to a 3D model of the tunnel.

Silicon Graphics: UK, tel (0)1734 257925; fax (0)1734 257505.

Reading the ripples in Forex trading

Foreign exchange traders could gain new insights into options pricing theory from studies of turbulence in fluids, according to a report in today's Nature.

The action of long-term foreign exchange traders, who watch the market only from time to time, is known to influence the behaviour of short-term traders, who study the market continuously.

Researchers at the Institut für Physik in Basle in Switzerland have found that the way that information cascades from long to short timescales in financial markets has a parallel in hydrodynamics, in which energy is dissipated through a hierarchy of eddies of decreasing sizes.

Although it is unlikely that the foreign exchange markets could be modelled entirely using equations similar to those that describe fluid flows, the researchers believe they have found a conceptual framework for understanding the short-term dynamics of speculative markets.

Institut für Physik: Switzerland, tel 41612673743; fax 41612673784.

Diesel wax crystals made to wane

Research conducted by Danish and Israeli scientists into crystal formation is expected to lead to new additives for diesel fuel. This could tackle the build-up of wax crystals in engines and pipes that cause particular problems in cold climates.

Scientists at the Weizmann Institute in Israel, Copenhagen University and the Riso National Laboratory in Denmark made X-ray studies of the formation of hydrocarbon crystals in diesel fuels.

The researchers found that the shorter the hydrocarbon chains, the more layers of crystals, and so more wax, it formed. They also found that the build-up of layers of wax crystals could be prevented by adding a long-chain alcohol to the hydrocarbon.

Weizmann Institute of Science: Israel, tel 97289343852; fax 97289344104.

Cinema/**Nigel Andrews**

Laboured slab of American Gothic

Film critics are a terrible sight in late June. They walk blinking into their darkened Soho preview theatres, ill-kempt of appearance and clutching tremulous coffee cups. They know that the sun is shining outside and that the air to the south is popping with famous tennis balls. They know too that every other worker in London can at least open a window and listen to a cheeping bird.

We must open our minds to the worst that distributors can send down a projector beam. All the product that they dare not release when moviegoers are actually going to movies – that is, spring, autumn or winter – is uncanned and upended over us midsummer detainees.

This result is a week full of things like *The Passion Of Darkly Noon* and *The Thin Line Between Love And Hate*, where even the titles are a struggle to get through. The first is a slab of American Gothic from Britain's Philip Ridley, who screenwrote *The Krays* before debut-directing the bizarre but interesting *The Reflecting Skin*.

That too was set in a never-never America and was famous for its exploding frog sequence. (If you don't know, don't enquire.) Ridley has now swapped the earlier film's harsh prairies and sexual madnesses for dark forests and, er, more sexual madnesses.

Darkly Noon is the name of the mysteriously injured young man (Brendan Fraser) brought into the tumbledown woodland home of the blonde Callie (Ashley Judd). Though he has survived an attack on his religious cultist family, this stammering Bible-clutcher cannot long survive Ms Callie's tendency to rub ice cubes on her bosom and to wear light, thigh-revealing shifts while repairing the roof.

Soon we are off and running into a plot that could have been written by Angela Carter unproductively teamed with Tennessee Williams. When it is not dispensing laboured, heavy-breathing eroticism, it breaks for moments of magical realism like the giant silver shoe floating down a river (why?) or the circus folk who suddenly turn up (again why?) in the last scene of mayhem and tragedy. (Ridley in the press notes says we should avoid asking the question why. To which the only response is – why?)

At once overdetermined and underconceived, this is the kind of "grown-up fairy tale" that denigrates both grown-ups and fairies. The first could sue for defamation of intelligence, the second for attribution of whimsicality beyond even their tolerance level.

THE PASSION OF DARKLY NOON
Philip Ridley

THE THIN LINE BETWEEN LOVE AND HATE
Martin Lawrence

HEAVEN'S PRISONERS
Phil Joanou

MOONLIGHT AND VALENTINO
David Anspaugh

EMPIRE RECORDS
Allan Moyle

Martin Lawrence, a popular black comic actor on American TV who starred in the movie *Bad Boys*, wrote and directed *The Thin Line Between Love And Hate* as well as starring in it. Could he sue himself for dissipation of talent? This soi-disant comedy thriller plays like *Sunset Boulevard* awkwardly crossed with *Fatal Attraction*.

We begin with a body in a pool and proceed to the flash-backed tale of a woman scorned (Lynn Whitfield). Between this violent alpha and omega there is an entire alphabet, mostly in Greek, of ethno-comical dialogue, obscurely trivial movie references and guest cameos by people we have never heard of. Perhaps it is helpful to be an American television addict. Then again, perhaps it isn't.

★

A great feature of silly season press shows is shared despair. For those like myself who favour the front row, light from the screen exposes us to our neighbours and to the heartfelt pantomime that occurs during bad films. The Independent casts an eyes-to-heaven look at the Times to his right. The Times makes sighing noises for the benefit of *his* right-hand neighbour, the Financial Times. And the FT turns to carry on the semaphore, but sees only two critics wrapped in enviable sleep.

This was the scenario during much of day two, when we saw *Heaven's Prisoners*, *Moonlight And Valentino* and *Empire Records*.

I have a lot of time for Alec Baldwin, but not 2¼ hours when he is speaking with a Louisiana accent. In *Heaven's Prisoners* he plays a retired cop trying to live a simple married life with Kelly Lynch on the bayous. But when a single-engined plane crashes in the sea, narrowly missing his fishing ketch, it opens a can of worms quite different from those he sells in his neighbourhood bait shop (where he never seems to work).

Guns, beatings and southern gothic dialogue ensue. So do Mary Stuart Masterson as a goodhearted stripper and Eric Roberts as Baldwin's best friend, wearing the most startlingly changeable hairstyle in history. For most of the film it is short and Afro-braided. Then suddenly in the dimly lit, gun-blazing denouement it is thick, lush and nearly shoulder-length. Did Roberts go and make another film in the meantime? Or did his sister Julia steal in to polish off the final reel?

Every actress *but* Julia Roberts seems to be in the comedy-weepie *Moonlight And Valentino*, except for those who have already done female bonding service in *Waiting To Exhale* and *How To Make An American Quilt*.

Whoopi Goldberg is the best friend, Gwyneth Paltrow is the sister, Kathleen Turner is the stepmother and Elizabeth *Big* Perkins is the heroine, widowed when her husband is killed by a car while jogging. This actually happened to screenwriter Ellen Simon, Neil's daughter, who here adapts her own play. But while we offer sympathy for the reality, the re-enactment is a long and losing battle with triteness.

We no more believe in schoolteacher Perkins's dazed but joky togetherness after the accident than we believe in her delayed-action breakdown during a literature class. She stalks in, *après*-mourning, with "Well, guys, back to French aestheticism." She walks out moments later, choked again by memory and setting her pupils for homework a "poem without words." We never see the results. But they would probably be like this film: a movie without movement, or the skill to move us.

★

Empire Records is, *faute de mieux*, as good as the week gets. That is, bad but fun. The girls and boys who run a take-over-threatened New Jersey record shop fight back with songs and collection buckets, while also taking time to sort out their love lives. Bright and quirky performers – Liv Tyler, Anthony LaPaglia, the Rowan Atkinson lookalike Robin Tunney – make the time pass quickly. Or possibly by late Tuesday we had lost all sense of time anyway.

One can always flee to Golden Oldie land. Hitchcock's Quebec-made *I Confess* (15), which inspired the new Robert Lepage mystery thriller-cum-movie meditation *The Confessional*, is revived at the Renoir. And at the Empire, Time Out magazine has sponsored a week-long centenary programme, continuing until Monday, of films including *L'Atalante*, *Schindler's List*, *2001* and the inevitable, unstoppable *Citizen Kane*.

Brendan Fraser in Philip Ridley's 'The Passion of Darkly Noon'

Fête de la musique, Paris

'Jenufa' adds to the spirit

If nothing else, it is a noisy event. All day the traffic in central Paris is at a standstill. By mid-evening the Métro is bursting at the seams and crowds fill the pavements. Around midnight boisterous packs of roller-skating youths start roaming the city and the air resounds with competing police sirens.

This is the annual "fête de la musique". Around 550 "manifestations" were expected in advance, most of them informal groups setting up on the pavement and often playing into the early hours. To join in the spirit four of the city's opera-houses were playing interesting productions over the weekend.

As so often in recent years, the one that aimed highest was the Théâtre du Châtelet with its ambitious new production of Janáček's *Jenufa*, which imported a foreign symphony orchestra to be in residence for the ten-day run of performances. Money is no obstacle to artistic excellence in this city.

The Châtelet has done this before (and will do so again) with the Philharmonia from London, but on this occasion the visitors were the City of Birmingham Symphony Orchestra and Simon Rattle – a choice fully vindicated by the impassioned performance they delivered at the opening night on Thursday. Rattle has conducted other Janáček operas and is developing his own view of the music, more earthy and red-blooded than Mackerras, the west's resident Janáček specialist.

Simon Rattle and his orchestra delivered an impassioned performance

With his own orchestra, well rehearsed and playing with that incandescent spontaneity that is a special mark of their partnership, Rattle led a *Jenufa* that opened its heart to the music. This was also the first performance of the opera in Paris to be sung in the original Czech.

There were two outstanding individual portrayals. Philip Langridge is a vivid example of the singer who has absorbed the rhythms and angularity of Janáček's music and welded them to a modern physical response to the drama. His Laca was a man of frightening intensity barely under control, second cousin to his Peter Grimes. As at Glyndebourne, Anja Silja was a compelling Kostelnička, whose physical performance equally avoids any standard operatic clichés.

Between them, they dominated the stage. This was a bare production in a standard modern style, which refused to admit any Czech elements that might have been construed as picture-postcard folksiness. The producer, Stéphane Braunschweig, concentrated on states of mind, although he failed to peer very deep into Jenufa herself, who remained simply a demure girl in Nancy Gustafson's quiet performance. Graham Clark's Steva and Menai Davies's grandmother played two more idiomatic Janáček characters.

At the Opéra Comique one could less happily see a national style in decline A new production of Bizet's *Carmen* in the delightful opera-house where it had its first performance seemed a good idea, but perhaps it was too much to expect that the *opéra-comique* spirit of 1875 could be conjured today. The strongest aspect here was the exciting orchestral performance, conducted by Lawrence Foster. He was using the version played at the premiere, which was interesting in itself.

The rest exhibited as much energy as if the opera had been running without a break for the last 120 years. The producer, Louis Erlo, had decided to give the opera a "new slant" by going against its obvious spirit wherever possible. So Carmen did not dance or play her castanets. The cigarette-girls did not brawl. Passions did not run high; indeed they barely ran at all, making Katarina Karneus's promising young Carmen seem even cooler than her own nature might have demanded. Luca Lombardo's Don José had intensity but not grace. Annick Massis was a bright-voiced Micaela in the Gallic style – the only link with French tradition.

At the Opéra Bastille the new production was Bellini's *Norma*. This was the sort of evening that one might meet at any of the world's grander opera-houses, in which star soloists fly in to take their places in a well-oiled, uncontroversial staging. In fact, given the difficulties of getting *Norma* to work in the theatre today at all, Yannis Kokkos's simple blend of the romantic and the classical should be deemed a positive success. His beautifully-lit woodland setting was most atmospheric.

There was no risk of a forest fire, however. A well-chosen cast, supported by trim conducting from Carlo Rizzi, went through their paces without the spark that might have set the drama alight. Susanne Mentzer was a warm-voiced and flexible Adalgisa. Franco Farina brought some power but less than military precision in intonation to the role of the Roman proconsul, Pollione; Dimitri Kavrakos was a sturdy Oroveso. But all eyes were inevitably on the Norma of Carol Vaness, who sings the music as well as anybody in the last couple of decades and might make the role her own, if she can learn to stamp her own personality on it.

All this, and no time to catch a rare production of Gluck's *La clemenza di Tito* (not Mozart's) at the Théâtre du Champs-Elysées. By next weekend the Opéra Bastille will be on its next revival, Strauss's *Salome*. The Palais Garnier, the city's grand opera-house, had just finished *La Cenerentola*. The amount of opera in Paris is astonishing. How long will government support at this level last?

Richard Fairman

Theatre/**Alastair Macaulay**

Roller-coaster 'War and Peace'

The Shared Experience stage adaptation of Tolstoy's *War and Peace*, now playing at the National Theatre's Cottesloe auditorium, is an enthralling, imaginative, lovable, serious, three-act, multi-track roller-coaster, and in a number of ways it is remarkably Tolstoyan.

It is studded with shock of recognition. If we know the novel, we are amazed that no sooner do we see certain actors in costume than we know them to be Pierre, or Hélène, or Nikolai, , even before they have been introduced. And then, as in the novel, we have hardly been in their company before we seem to have known them all our lives. The adaptation is by Helen Edmundson; the direction by Nancy Meckler and Polly Teale.

In certain ways, this *War and Peace* feels at times *un*-Tolstoyan – yet *mainly* in ways that heighten its interest as theatre. We see no landscapes or buildings; pomp and grandeur are minimised. The action occurs in one *galerie des glaces*, eloquently designed by Bunny Christie and lit by Chris Davey. Only a few props are used. Even a fan is indicated by a knife, a fork, and a spoon – the implements sprayed out to indicate both a fan's function and its absurdity. Scenes are sometimes overlapped, to the extent that Prince Bolkonsky tells his daughter Maria that Andrei is dead right across the duel in which Pierre shoots Dolokhov.

Most striking of all, the Shared Experience style is intensely expressionistic at times, with characters expressing their fantasies in stylised physical movement. For example, the slight edge of self-flagellation with which Maria addresses God is indicated in physical terms (even in the exaggerated way she crosses herself), and the way – in the middle of her prayer – she is half-seduced by an imaginary (blindfolded) man is conveyed in a brief, tense *pas de deux*.

This *War and Peace* – lasting almost 30 minutes longer than its announced four hours, but never for an instant dull – seems to move faster as it goes along. Too fast. The battle of Borodino, and the French occupation of Moscow are particularly rushed, and some of the moments in which the novel most astonishingly shows us changes in its characters are brushed aside in the rush. Other episodes (e.g. Anatole's seduction of Natasha) are trivialised. A few of the choreographic fantasy episodes are terrible.

Those who know the novel cannot help but miss certain episodes. I can bear the near-total removal of Tolstoy's post-Schopenhauer meditations on history and free will, but I cannot help missing the ways in which his post-Romantic reflections on life and death aerate the novel. The most reduced character is Andrei, whose tragic morbidity and final sense of the sublime are turned into mere English tight-lipped repression.

This Shared Experience version has its own compelling life. It is not, admittedly, as bold or as insightful as the Shared Experience *Mill on the Floss*, which connected desire, repression, and death with astonishing audacity. That type of revelation is best achieved here in the character of Maria. Helen Schlesinger's performance seamlessly shows the touching and dignified repression with which Maria turns her unhappiness at home and her romantic longings into religious devotion.

Anne-Marie Duff emphasises the febrile, ardent, and transparent selfishness of Natasha. The character, though more irritating than in Tolstoy and too breathily girlish, has a rivetting intensity. Richard Hope conveys the bearish unsophistication and tenderness of Pierre. Ronan Vibert's Andrei catches the man's dignified exterior, and the degrees to which his manner thaws or freezes; but it is an unrelentingly tense and simplistic characterisation.

The best pleasure of the acting comes from watching people playing more roles than one. Rakie Ayola is a handsome, malicious, sinister, vain Hélène and a silly, futile Mlle Bourienne; John Warnaby is both Bonaparte and Boris Drubestkoy, Peter de Jersey is both Petya Rostov, and Anatole, Cathryn Bradshaw is both Andrei's wife Lisa and Natasha's cousin Sonya, and each of them are charmingly right in either role.

However easy it may be to find fault in a staging of *War and Peace*, this one shows the wonderful range, sweep and detail that makes *War and Peace* unique. We experience characters from inside and outside at the same time, and we are whirled through their stories with superb narrative force.

In National Theatre repertory at the Cottesloe Theatre, South Bank, SE1.

INTERNATIONAL
ARTS GUIDE

AMSTERDAM

EXHIBITION
Van Gogh Museum
Tel: 31-20-5705200
● Van Gogh drawings, part I: each summer for the next four years the Van Gogh Museum will publish a volume of the catalogue of its collection of Van Gogh drawings. To mark each publication, a summer exhibition will be held; to Sep 15

■ BARCELONA

EXHIBITION
Fundació Joan Miró
Tel: 34-3-3291908
● *Ping Pong*: exhibition of paintings by the artists José Aja, Yves Bélorgey, Ignacio Hernando and Mireille Kassar; to Jun 30

■ BERLIN

EXHIBITION
Altes Museum Tel: 49-30-8301332
● *Faszination der Antike*. The George Ortiz Collection: exhibition of more than 280 Egyptian, Greek, Roman and Byzantine objects from the George Ortiz Collection. Special emphasis is laid on the artistic developments in Greece from the beginning of the Neolithic to the time of Alexander the Great; to Jun 30

OPERA
Komische Oper Tel: 49-30-202600
● *Die Fledermaus*: by J. Strauss. Conducted by Shao Chia Lü and performed by the Komische Oper. Soloists include Schellenberger, Korovina, Neumann and Sander; 7.30pm; Jun 28

■ BONN

DANCE
Oper der Stadt Bonn
Tel: 49-228-7281
● Ein Sommernachtstraum: a choreography by Youri Vàmos to music by Mendelssohn, performed by the Ballett Bonn. Soloists include Bondar, Moussatov, Fanari and Mamrenko; 8pm; Jun 28

■ CHICAGO

EXHIBITION
Art Institute of Chicago
Tel: 1-312-4433600
● D.H. Burnham and Mid-American Classicism: celebrating the 150th anniversary of Daniel H. Burnham's birth and his contributions in shaping Chicago's downtown district, the Art Institute presents this exhibition of approximately 100 drawings; to Sep 2

■ COLOGNE

EXHIBITION
Museum für Ostasiatische Kunst
Tel: 49-221-9405180
● Aus der Welt des Samurai: exhibition focusing on the representation of Samurai in Japanese art. Until the mid-19th century these knights were at the top of Japan's social hierarchy; to Jul 21

■ EDINBURGH

EXHIBITION
National Gallery of Scotland
Tel: 44-131-5568921
● Awash in Colour: Great American Watercolours from the Museum of Fine Arts, Boston: this exhibition presents a collection of over 50 watercolours, selected from the holdings of the Museum of Fine Arts in Boston. The display includes works by Winslow Homer, Edward Hopper, Georgia O'Keeffe and John Singer Sargent; to Jul 14

■ GLASGOW

JAZZ & BLUES
Glasgow Royal Concert Hall
Tel: 44-141-3326633
● Jazz Meets The Symphony: a concert which unites the Royal Scottish National Orchestra with a jazz rhythm section, in which pianist/conductor Lalo Schifrin is joined by Ray Brown on bass and Grady Tate on drums, with solo contributions from trumpeter James Morrison. Opening concert of the Glasgow International Jazz Festival; 7.30pm; Jun 28

■ LONDON

CONCERT
Wigmore Hall Tel: 44-171-9352141
● The King's Consort: with conductor Robert King and organist James O'Donell, soprano Deborah York and oboist Katharina Spreckelsen perform Handel's Chaconne from Terpsichore, Oboe concerto in B flat and three German arias; 7.30pm; Jun 29

EXHIBITION
Royal Academy of Arts
Tel: 44-171-4397438
● 228th Summer Exhibition: held every year since 1769, this is the largest open contemporary art exhibition in the world, drawing together a wide range of new work by living artists; to Aug 18

FESTIVAL
Royal Albert Hall
Tel: 44-171-5898212
● JVC/Capital Radio Jazz, Funk and Soul Festival: annual festival, presenting jazz, funk, soul and gospel. Performers include Joe Satriani (Jun 29), B.B. King (Jun 30), George Benson (Jul 1,3) and Bill Cosby (Jul 5); from Jun 29 to Jul 5

■ LOS ANGELES

CONCERT
Hollywood Bowl
Tel: 1-213-850-2000
● Hollywood Bowl Orchestra: with conductor John Mauceri, vocalists Paige O'Hara and Timothy Noble, narrator David Hyde Pierce, the Mitch Hanlon Singers and the Children of the World Choir perform works by Prokofiev, Rodgers/Hammerstein and Besterman; 7.30pm; Jun 28

■ MADRID

EXHIBITION
Museo Nacional Centro de Arte Reina Sofia Tel: 34-1-4675062
● David Smith: retrospective exhibition devoted to the work of this American sculptor. The display includes some 40 sculptures created between 1933 and 1965; to Jul 1

■ MUNICH

EXHIBITION
Haus der Kunst Tel: 49-89-211270
● Umbo - Vom Bauhaus zum Bildjournalismus: retrospective exhibition devoted to the work of photographer Otto Umbehr, also known as Umbo; to Jul 28

■ NEW YORK

EXHIBITION
Guggenheim Museum SoHo
Tel: 1-212-423-3840
● Mediascape: the Guggenheim Museum SoHo reopens to the public with this exhibition devoted to multimedia and interactive art; to Sep 15

■ OSLO

EXHIBITION
Munch-museet-The Munch Museum Tel: 47-22-673774
● Edvard Munch. Prints from 1896: exhibition of a selection of 131 prints by Edvard Munch from the year 1896, which he spent in Paris. In the workshops of August Clot and Lemercier a number of the artist's most well-known graphic works were printed; to Oct 1

■ PARIS

EXHIBITION
Centre Georges Pompidou
Tel: 33-1-44 78 12 33
● Picabia 1922: this exhibition is a reconstruction of the exhibition organized by Francis Picabia, one of the pioneers of Dada, in the Galerie Dalmau in Barcelona in 1922; to Jul 1

■ SYDNEY

OPERA
Drama Theatre, Opera Theatre, Playhouse Tel: 61-2-250-7127
● La Bohème: by Puccini. Conducted by Patrick Summers and performed by the Australian Opera. Soloists include Cheryl Baker and Akiko Nakajima; 7.30pm; Jun 29; Jul 1 (6pm)

■ WASHINGTON

MUSICAL
Eisenhower Theater
Tel: 1-202-467 4600
● Broadway Songbooks: "Puttin on the Ritz". The Irving Berlin Songbook: the Rainbow Revues fill the stage, which is transformed into a nightclub, with singers who explore Irving Berlin's music; Tue - Fri 7.30pm, Sat 6pm & 9pm, Sun 3pm & 6pm, Jul 4: 7pm; to Jul 14 (not Mon)

■ ZURICH

OPERA
Opernhaus Zürich
Tel: 41-1-268 6666
● Eugene Onegin: by Tchaikovsky. Conducted by Franz Welser-Möst and performed by the Oper Zürich. Soloists include Mirella Freni, Stefania Kaluza and Jitka Saparová; 8pm; Jun 28

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18.00
Financial Times Business Tonight

Peter Martin

A profitable course to take

With growing demand for lifetime learning, there is a business opportunity to create a strong global training brand providing portable standards of achievement

This article contains a business idea that will make someone rich. But first – now that I've got your attention – a bit of background.

In case you didn't know it, this is European Life-Long Learning Year – just one, bathetic, example of how the developed world's politicians are falling over themselves to promote skills training. It is the only way, they say, that western labour can hope to compete with the lower-cost, highly motivated workers of east Asia. The US has its grandly titled Goals 2000: Educate America Act; France has bigger incentives for apprenticeships and new technical training colleges; British politicians from all three parties promise new wheezes to encourage more and better training.

The message is that individuals are going to have to take responsibility for training and re-training themselves over their whole working lives. So here's the business idea: branded training.

Doesn't sound very sexy? Bit of a bore? Well, consider. Until Ray Kroc came along, fried food was the stuff of mom-and-pop diners and back-street fish and chip shops. No glamour there. Now, McDonald's is one of the classic growth stocks of the post-war era. Its storefronts are everywhere, and the company is valued at $35bn (£23bn). The essence of Ray Kroc's insight was that a business hitherto seen as essentially messy, individualist and atomised could be standardised, systematised and branded, first on a national scale, then on a global one.

So what's so different about training? Why has it largely remained small scale and unbranded? We'll come to that in a minute. First, some examples of companies that have already established a branded presence in training: Berlitz, British School of Motoring and the Kumon Institute.

● Berlitz has been best known in recent years for its unfortunate role as one of Robert Maxwell's victims, but is now two-thirds owned by Fukutake, Japan's biggest correspondence course company. Its network of 315 language schools spans 30 countries, with a standardised approach: an emphasis on native-language teachers and the "direct method", in which all interaction with the pupil takes place in the language being taught. Revenues are more than $300m a year, and Fukutake has ambitious expansion plans.

● British School of Motoring has turned what is in most countries a highly fragmented business into a systematised, branded one. Its 2,000 self-employed instructors have 15 per cent of the UK driving-lesson market.

The group lobbied the government to introduce the new driving theory examination to supplement the practical test. Now that the theory exam is compulsory, BSM may well be better placed than smaller rivals to teach it. Despite its strong national brand, its revenues are still small: pre-tax profits were £5.4m in 1995 on sales of £34m.

● The Kumon Institute teaches children mathematics (and other subjects) through a core set of principles, a standardised set of worksheets and a network of franchised evening schools. Its founder, Toru Kumon, set it up in 1958; it now has 1.6m pupils in Japan and another 500,000 overseas, with revenues of more than $500m a year.

Those examples show that branded training can be a profitable business – but they also suggest that so far it has been confined to narrow niches, with relatively limited potential revenues. What are the reasons for that? And are they about to change?

The biggest reason why branded training has not yet taken off is the lack of an imperative driver of demand. Historically, people have been educated once in their lives, between the ages of five and, at the latest, their mid-20s. The financing of this early education has come from parents and government, rather than from the individuals themselves.

Most people still have not made the shift to a world in which they will need to be continuously re-educated or trained, let alone to one in which they will need to take responsibility themselves for that re-training. They expect their employers or the government to carry the burden. Narrow areas such as language and driving lessons are among the few exceptions to this rule.

Intriguingly, the one broader educational product for which users are willing to take on the responsibility of choice and finance is the MBA course – and here we *have* seen the emergence of some brand characteristics and even the first tentative steps towards globalisation.

Will other areas of training follow the same process? Your guess is as good as mine: not every apparently inexorable trend really pays off. But all the trend-watchers seem to agree that demand for training will rise steadily over the decades to come. So let us take that underlying demand for granted. It is less clear, however, that it will result in a market susceptible to McDonald's-style systematisation and branding.

It has not so far, after all, because of two other unusual characteristics of the market-place. The first is the role of intermediaries: governments and employers. Not only do they largely set the standards that trainers must meet, they also act as large-scale suppliers of subsidised training. It's tough for private-sector businesses to compete with that. Kumon maths teaching largely exists in the interstices of that system, supplying "top-up" education to children the state system is not serving very well.

An opportunity for branded trainers, however, lies in the increasing pressure on governments to withdraw subsidies from these areas, as the fiscal squeeze bites, or to privatise their provision. Another opportunity beckons as companies are less willing to guarantee lifetime employment. There will be increasing desire on the part of workers for a portable standard of achievement – one that branded training can supply.

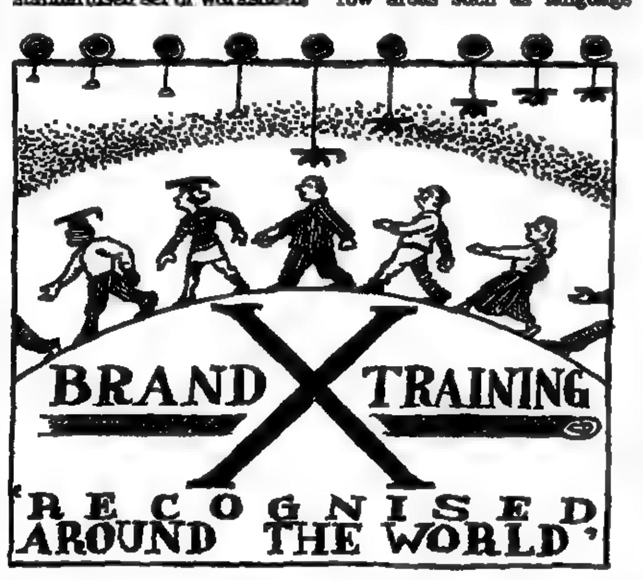
The second aspect of the market is that standards are largely set on a national (in some cases regional) basis. Although most skills are now, in principle, globally transferable, standards-setting bodies operate locally. Teaching someone to drive a car is pretty similar all over the world; teaching someone to pass a driving test is quite different in, say, Basingstoke and Baltimore.

Still, that's an opportunity as much as a problem: it allows would-be branded trainers to set their own standards and teach them consistently around the world – potentially a strong competitive advantage. After all, the local standard for fast food varied widely from country to country until McDonald's homogenised it. The very act of creating a global standard for fast food served as a marketing advantage for McDonald's.

So here is the business opportunity: to create a strong global training brand, with a clear set of core principles and a standardised approach to quality, success measurement and process. The business model will probably be some form of franchising, with a clear distinction between the tight central control of intellectual property and system, and the loose approach to local issues such as personnel management, wages, marketing and so on.

In the short run, the training company will use its brand to enhance the qualifications set by national bodies or employers. In the long run, it can hope to see its own branded diplomas replace or supplant national equivalents.

Who will be the branded trainers of the future? It's hard to say. The most obvious candidates – educational publishers – are usually bad at the sort of hands-on people skills that will be required to get the branded training franchise up and running. But someone will do it. And it would be a nice irony if the approach that McDonald's has taken in fast food could provide the training needed for workers to escape from the hamburger-flipping McJobs that otherwise beckon.



BOOK REVIEW – Tony Jackson

REBELS AGAINST THE FUTURE: By Kirkpatrick Sale
Addison Wesley, 320pp, $24

Neo-Luddite cry in the computer age

One of the most enduring quirks in human nature is the belief in a golden age. The term may have been coined by the ancient Greeks, but the idea goes back to the expulsion of Adam and Eve from Eden. While the story takes many shapes, the gist remains the same: things are not what they were, and the world is going to the dogs.

Kirkpatrick Sale's golden age is 18th century England: a land of happy and prosperous craftsmen, with a grandfather clock in every parlour, Staffordshire china on the dresser and a vegetable garden at the back. Within a generation, we are told, all that was swept away. The land was darkened and the people enslaved by The Coming of The Machine.

It is now happening again, only worse. The signs of the second industrial revolution are manifest: acid rain, bio-engineering and transnational corporations. So is its cause: The Coming of The Computer.

Sale's book falls into two parts. The first is a history of the Luddites, a group of English workmen who mounted a brief, violent campaign against machines and their owners from 1811-14. The remainder is a rallying cry: the raising of the neo-Luddite standard in the age of the microchip.

The differences between the two parts are instructive. The Luddite section is a conventional narrative, useful if slightly specialised. It is, of course, biased: but bias is inherent in history and has the virtue here of being explicit.

The remainder is more interesting and more problematic. We have all been repelled by the works of industry at one time or another, and few would rather look at a factory than a field. As willing consumers, we know this is in part irrational: but the neo-Luddites, Sale tells us, are explicitly opposed to rationalism.

He is thus in the awkward position of constructing an argument in defence of an emotion. The result can be somewhat tangled.

His starting point is what economists call the "lump of labour" fallacy. This states that there is only a finite amount of work to go round. Once the machines have grabbed it all, the rest of us are left sitting on our hands.

The logical snag is that after several millennia of technological advance, people are still working. Indeed the US, the world's most technologically-advanced society, has virtually full employment.

Sale's defence is to deny this employment is real. The origins of this argument lie – once more – in the 18th century, this time in France. In its pure form, it says the only productive work consists of extracting produce from the earth. All other work is sterile.

Sale seems to think real jobs are being exported to the developing world through a conspiracy between the multinational corporations and the World Bank. This has polarised US society into two equally unproductive groups: a handful of computer and financial experts on top and an army of impoverished hamburger-flippers below.

The picture is rather at odds with the fact that the US is also a net exporter of food and many basic manufactures. But it is central to Sale's argument for another reason. If technology causes the export of jobs, it follows that computers are responsible for production wherever it takes place. They are therefore to blame for damage to the environment worldwide. Since that damage is cumulative, it is logically finite. Therefore, technology must fail.

Deny that premise and the fallacy is obvious. Artificial intelligence makes no claims on the environment. It is literally immaterial, a thing of digital bits. It employs some hardware as a medium but even that is shrinking through miniaturisation. Computers do not cause forests to be levelled in Brazil, or chemical plants to be built in China. These are the effects of the first industrial revolution, still working its way round the globe. If anything, today's technology can help clean up the mess.

If playing the environment card is something of a dodge, one can see what prompted it. The real damage done by the information revolution is social: job cuts, family stress and the anxiety of rapid change. But capitalism goes through those convulsions at regular intervals and survives. The first industrial revolution was horrible, but the Luddites failed.

Whether the neo-Luddites fail depends on how they measure themselves. They will not cancel human ingenuity, or resurrect an imagined past. They will not even abolish the computer.

They can, however, hope to modify its use. Sale may be cranky but he is on to something. The Luddites were opposed to "all Machinery hurtful to Commonality". For all its problems of definition, that has a certain moral force.

But that raises a question which Sale is too much of a libertarian to address: whether governments should restrain technology in defence of society, as they are beginning to in defence of the environment. It seems a tricky proposition, particularly as the revolutionary effects of the computer will eventually play themselves out, as did those of the steam engine.

That leaves Sale's prescription for individuals: scrutinise any new technology for possible harm, and if need be reject it. For most of us, already enslaved by the computer, that is not an option. It is not a bad rule of thumb all the same.

Rebels Against The Future is available from FT Bookshop by ringing FreeCall 0500 418 419 (UK) or +44 181 964 1251 (outside the UK). Free p&p in UK.

·LETTERS TO THE EDITOR·

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A clue as to why growth in Japan leaped ahead

From Mr Brian Reading.

Sir, Your article on Japan's remarkable first quarter gross domestic product growth missed one important factor ("Japan's economic recovery – a miracle or a mirage?", June 20).

The Economic Planning Agency figures are not adjusted for the number of days in the quarter. Reuters, following an EPA press conference on June 18, reported that "the EPA also said the fact that 1996 is a leap year helped push up GDP in the first quarter", and "the extra day contributed to 0.5 per cent of the total". But the total probably referred to 1996 as a whole.

There were 60 working days in Japan in the first quarter, after allowing for regular national holidays (the effects of which normal seasonal adjustments will capture). Had it not been leap year there would have been 59 working days.

The extra day thus added 1.7 per cent to first quarter output (or 0.4 per cent to the year's output). If this is correct, more than half the first quarter's 3 per cent growth was due to leap year. The remaining 1.3 per cent, or 5.3 per cent at an annual rate, is still rapid but not surprisingly so. The much quoted 12.7 per cent annual rate rise assumes there is a leap day in every quarter of the year.

**Brian Reading,
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Linking trade to human rights

From Ms Olivia Q. Swaak-Goldman.

Sir, In your editorial "Bonn in the China shop" (June 26) you assert that linking trade privileges to human rights violations is counter-productive and that, on the contrary, "trade and the increasing prosperity that comes with it can be a civilising influence". This is just the sort of argument human rights organisations around the globe have successfully attempted to counter. It is true that concern over human rights can have a negative effect on trade relations, as exemplified by the current débâcle involving China – in the first instance involving the US by way of Boeing Aircraft, and now the German government. But arguments *for* de-linking trade and human rights should be justified on the basis of pure economics and not the skewed argument that linkage is not effective.

If it is true that the linkage is less effective than desired, that is because only a handful of states attempt to make it and repressive states are free to turn to less demanding partners for their trade. Thus, the fact that the linkage is made by only a few countries and is therefore not as effective as it could be should not be used as an argument against making the linkage at all.

The argument that de-linking trade and human rights actually leads to an improvement in human rights is, in addition to its neo-colonial tone, inaccurate. The well-respected human rights organisation Human Rights Watch, in its 1995 World Report, came to just the opposite conclusion. It found that the de-linking of these issues led to a marked worsening of human rights conditions. One need only think of oil-rich, and therefore trade-rich, Nigeria and its execution of minority rights leaders last November to provide a ready example.

If western governments choose not to risk short-term economic interests in the name of human rights and democracy that is their decision. But it should be justified on that basis alone, not on the illusory argument that the linkage is ineffective.

**Olivia Q. Swaak-Goldman,
Europe Institute,
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Netherlands**

Harmful constraints of a gold standard

From Mr David Peterson.

Sir, Running throughout Michael Prowse's "The golden dream" (June 24), his fanciful history of the gold standard and the role that advocates of its reinstatement would like it to play in relation to the fiscal and monetary tools of a global economy already wrecked on deflationary madness, were a number of comments that captured the real appeal that the precious metal has in the eyes of the statist reactionaries whom Prowse mis-characterises as "conservatives".

The return to gold would establish a "powerful check against governments' desire to pursue inflationary policies", Prowse writes, the term "inflationary" being the key that unlocks the door.

The gold brigade wants us to believe that the Group of Seven economies can be returned to higher rates of growth through a magical elixir that combines one part radically lower taxes (often including the flat-taxers' call for zero taxation on returns to financial capital), and one part re-linking currencies to gold.

Thus, they would tie government's fiscal and monetary hands, preventing it from adopting Keynesian-type spending programmes, particularly on social account. For spending on social account would be inflationary, these keepers of the financial altar complain. That is, it would benefit the wrong class of interests, while putting the value of financial assets at risk. What more devious scheme could one devise to ensure that government expenditures do not get squandered on the wrong class of citizenry, than to equate their material well-being with the dread "I"-word, even as the prices of financial assets soar to the heavens?

"The gold standard, with its general regardlessness of social detail, is an essential emblem of those who sit in the top tier of the machine." Thus wrote Keynes about the transparent motivation of another bout with *rentier* madness, earlier this century.

What else are the Maastricht treaty's fiscal constraints, the US Federal Reserve's obsession with NAIRU (non-inflationary rate of unemployment), and the Right's call for a return to gold, but the subordination of the state and civil society to the sort of deflationary regime demanded by global capital markets?

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CORRECTION

Gideon Nellen

Mr Gideon Nellen's letter, published on June 22/23, should have read that the "scale of under-charging [of landing fees at Heathrow – and hence the subsidy to airlines] has been estimated at £250m a year".

Objection required in the cause of consistency

From Mr Peter Cave.

Sir, Gender does not determine an accountant's accountancy ability, therefore – argues Ms Victoria Andrews (Letters, June 18) – Ms Sheila Martins should not be described as "arguably Britain's leading woman accountant".

Well, neither nationality nor geographical location nor, indeed, title, nor name, fixes such ability, so in all for consistency, Ms Andrews should also have objected to the "Britain", the "Ms", the "Sheila" and the "Martins".

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FINANCIAL TIMES
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Thursday June 27 1996

Death in Dhahran

Tuesday night's explosion at a military housing complex in Dhahran, Saudi Arabia, is the worst terrorist attack on US forces abroad since the destruction of the Marine barracks in Beirut in 1983. The death toll happily is much smaller than on that occasion, but the political implications are potentially much more serious.

The Beirut catastrophe led swiftly to the withdrawal of US troops from Lebanon and the tacit recognition of that country as a Syrian sphere of influence. That was serious but in retrospect can be seen as correcting an aberration in US policy. Contrary to President Ronald Reagan's rhetoric at the time, no vital American or western interest was at stake.

Saudi Arabia, by contrast, is crucial to the security of western oil supplies and to US influence in the whole Gulf region. The Gulf war could not have been fought without Saudi co-operation, and was fought as much to ensure the kingdom's long-term security as to liberate Kuwait. There could be no more direct challenge to American power than a murderous attack on US forces in the heart of the Saudi oil-producing region. Withdrawal from Saudi Arabia is an option no US president would seriously consider.

The Saudi rulers have been glad to keep a western (mainly US) military presence in the country since the war, to make it clear to any potential aggressor, for instance Iran, that western powers are still ready to come to their defence whenever necessary. But they have also been anxious to keep it discreet, knowing it is unpopular within the kingdom. The Dhahran explosion, following the bombing of a Saudi National Guard training centre in Riyadh last November, confirms that all too clearly.

The Saudis would like to believe this latest attack is the work of Iran, stirring up trouble among the Shia inhabitants of the kingdom's eastern province. For months after the Riyadh bombing they insisted it was an external affair. But last month four Saudi nationals were beheaded after confessing to that crime. They were not Shia Moslems and had nothing to do with Iran. They were militant members of the ultra-orthodox Wahhabi movement from which the Saudi state itself derives. And three of them had seen service fighting communism in Afghanistan.

Only President Ezer Weizman, pursuing an Israeli idée fixe, was yesterday blaming Iran for the Dhahran attack. The more likely, and less comfortable, explanation is that Saudi Arabia faces a highly organised terrorist movement formed by people who condemn the regime for betraying its own origins. Such a movement will not be bought off with small gestures of leniency or liberalisation. Nor, however, will it be easily repressed. Indeed, repression will provide it with martyrs and so help it undermine the regime's legitimacy.

Saudi Arabia is almost as unlikely to succumb to an Islamic revolution like Iran as it is to gobble up one of its small neighbours like Iraq. But over time it may be no better able than either of those countries to sustain the weight of being the bulwark of western interests in a hostile region. Western governments cannot and should not turn their backs on the kingdom. But they would be well advised to limit their exposure there as best they can.

Shares in distress

Those who bought shares in Eurotunnel should have known the risks. It was one of the most ambitious civil engineering projects ever undertaken; and there were many precedents to suggest that costs might exceed estimates.

So what have shareholders to complain about, as they crowd into the company's annual meeting in the Palais des Congrès in Paris today, ready to defeat their board with sacks full of proxy votes? French investors, who hold about 70 per cent of the equity, are angry because, after heavy losses, they now face the prospect of ceding a large part of their equity to Eurotunnel's creditor banks.

Although a deal has not yet been reached, it seems likely that the 225 banks will agree to exchange some of the £8.8bn which they are owed for shares, diluting existing shares by perhaps 50 per cent.

Shareholders' distress is at least understandable, for Eurotunnel is no ordinary company. It was a grand, long term project, blessed by the prime minister of England and the president of France. For private investors a bargain was implied by which the authorities would build high speed rail links, and provide revenue from rail services. This support has fallen short of expectations, while the authorities have required the company to meet the costs of extensive modifications for safety reasons. As a result, the company is unable to pay the interest on its debt, and the value of its shares, if any is left, depends on what deal can be struck with the creditors.

However, French shareholders have discovered a desperate weapon. By threatening to frustrate the deal they raise the spectre of bankruptcy. This would be most unwelcome to the banks, not least because of the complexity and uncertain outcome of French insolvency procedures. So although equity holders would usually expect to assume the residual risk, the proposed structure may allow them to share the pain with the banks. In the peculiar circumstances of Eurotunnel this may be fair, since the banks recognised an element of risk in the interest rate they were charging up until September, when payments ceased. And if the the banks hold equity instead of debt, the present shareholders will have a better chance of getting at least some return on their investment early next century.

Meanwhile, the UK government could help the process a little by extending the franchise, as France has requested, from the present 57 years to 99. This would be a costless way of recognising the enduring benefits which this private sector project has conferred on both nations.

A debt stand-off

Countries which are struggling to pay off mountains of official debt do not have many things to look forward to; but this week's Group of Seven summit was one of them. After a year of talking about helping debtor nations to grow out of debt, the hope was that leaders assembled in Lyons would at last translate fine words into action.

Almost everyone now accepts that some countries are so indebted that they cannot hope to reduce their debt to sustainable level without some extra help from official donors. This fact alone represents a moral victory for heavily indebted nations, and the non-governmental-organisations which have lobbied on their behalf. But the G7 leaders are still far from resolving differences over who should pay for the support, and how.

To address the problem adequately the World Bank, individual donor governments and the IMF need to play their part. To the World Bank's credit, its piece of the puzzle has recently fallen into place, with the board agreeing informally to allocate $500m (£333.3m) to the debt relief initiative this year and $200m each year thereafter.

It has been trickier to reach agreement on the second strand of the programme. This is because the bilateral creditors – as represented by the Paris Club – have already taken some modest steps to write off developing country debt. They are willing to concede further debt-write-downs, but only after the multilateral agencies have agreed to do their bit.

So far, so good. But a stand-off between Germany and the rest of the G7 over how to finance the IMF's slice of the package may yet put a comprehensive approach to debt reduction out of reach.

The IMF wants to sell a fraction of its $40bn gold reserves to finance its contribution to the debt effort, and put its existing concessional lending facility on a permanent footing. The German Chancellor, Helmut Kohl, will have none of it, believing that it would set a precedent for using gold for any number of good, and not so good causes, that the US might want to promote in future.

The IMF's gold is an outdated, and under-utilised, resource which could and should be put to better use. One can sympathise with Mr Kohl's concerns about future sales. But the answer is to judge each request on the merits and realities of the case. The reality of this case is that, although the Germans say they would be willing to contribute more money to help the IMF help debtor nations to help themselves, for the other governments, it is gold sales or nothing. Mr Kohl must swallow his pride and agree to the former.

Britain's legal challenge over the EU's legislation setting a maximum 48-hour working week could backfire, warns **Lionel Barber**

Own goal over extra time

Here we go again. After a brief, bloody war over the safety of British beef, the UK government is about to cross swords with the rest of the European Union again – this time over the 48-hour working week.

In the next month, a Portuguese judge at the European Court of Justice in Luxembourg is expected to rule on the UK government's challenge to the EU's directive setting a maximum 48-hour working week.

The narrow legal issue is whether Brussels can use health and safety legislation to push through rules on working conditions by majority voting. But the broader debate is about the regulation of labour markets in Europe – an increasingly polarised issue in the EU.

At one extreme stands Britain, seeing itself as an offshore enterprise centre, determined to insulate its economy against costly, meddlesome EU legislation. At the other stand the continental economies, eager to improve global competitiveness but also determined to preserve minimum labour standards in the single European market.

The origins of the dispute go back to 1989 when President François Mitterrand, celebrating the 200th anniversary of the French revolution and universal human rights, hit upon the idea of a new "social Europe" to compensate for the dislocation caused by creating the new single market.

The French crusade galvanised the European Commission in Brussels. Mr Jacques Delors, then president of the European Commission, and Ms Vasso Papandreou, the activist Greek social policy commissioner, produced almost 50 social policy initiatives, one being the directive on working time.

The UK Conservative government saw the fresh burst of EU social legislation as a reversal for its success in curbing trade union power in the 1980s. Such concerns led directly to Mr John Major's insistence in 1991 on an opt-out of the Maastricht treaty's social protocol.

The final version of the working time directive was agreed only in November 1993. It obliges the UK for the first time to introduce laws giving mandatory rest breaks after six consecutive hours; a minimum daily rest period of 11 hours; at least one day off a week; no more than eight hours a shift on average for night work; and four weeks' annual paid holiday.

"The directive was social engineering at its worst," says Mr Zygmund Tyszkiewicz, secretary general of Unice, the European employers' federation. "It was completely divorced from reality."

However, the UK fought a successful campaign to weaken the legislation and make it much less intrusive. It won exemptions for workers in air, rail, road, sea, inland waterways and lake transport businesses. Also exempted were junior doctors and priests. A clause banning longer working hours for "economic reasons" fell because of objections from the bakery and newspaper industries.

In addition to these exemptions, the 48-hour working week is virtually voluntary. Employers can negotiate with individual employees to encourage them to work longer hours. And the UK government secured a grace period of seven years, delaying the imposition of the maximum working week until November 2003 at the earliest.

Yet despite these concessions, the UK abstained from the final ministerial agreement in November 1993 and promptly announced it was going to challenge the directive in the European Court. "It looked like bad faith," says a Commission official. "The British negotiated the best available deal with their partners in Europe, but then for domestic political reasons announced they were going to the Court."

Not so, say the British. Their concern is that the working-time directive was agreed under Article 118a of the Single European Act. This allows health and safety legislation to be passed by majority voting in the decision-taking Council of Ministers. To suspicious British eyes, it looked like a ruse to circumvent the UK's social policy opt-out.

British fears grew this year after an initial European Court opinion from the French advocate general. He argued that health and safety issues could not be defined in terms of factory accidents or bad vibrations from video display units: "Health is not just a state of physical well-being, it is mental and social, and does not consist of just being free of sickness or infirmity."

And here is the rub for the UK government. If its legal challenge fails, the highest court in the Union will have endorsed a similarly broad interpretation of health and safety and "working conditions". The result might be to encourage the Commission to bring forward more social legislation under the same provisions – all because of a piece of legislation which many believe would have had minimal impact on working lives.

Reluctant step back from the brink

Philip Stephens on how the UK government came close to defying the European Court of Justice

A few weeks ago the European Court of Justice's impending judgment on the 48-hour working week prompted the most extraordinary ministerial decision of Mr John Major's premiership. It was an episode which defined vividly the unprecedented hostility which the working time directive has aroused within the senior ranks of the government.

In an atmosphere of fevered defiance, the cabinet's European policy committee decided that, if the court ruled against it, the government would simply defy the judges' decision. It would refuse to translate the provisions of the directive into domestic legislation.

The few ministers who argued against such a course were stunned that a Conservative administration could contemplate what would be a clear breach of British as well as European law. But such was the anger at the prospect of losing the battle to insulate the UK from Europe's social legislation, it was not until they reconvened on the eve of last weekend's Florence summit that the ministers backed down in the face of a stark warning from Whitehall's law officers.

The first meeting, of the cabinet committee on defence and overseas policy (OPD), took place during the first flush of the so-called beef war at the end of May. All but a handful of cabinet ministers were present. The ministers were told that the European Court would soon deliver a final judgment on the government's case that the directive should never have been tabled under the rubric of the EU's health and safety provisions.

The use by the Brussels Commission of that route had allowed other EU states to outvote Britain in the Council of Ministers, despite the UK's opt-out from the social chapter of the Maastricht treaty. The ministers were told the odds were that the court would endorse the preliminary ruling of the court's advocate-general which had rejected the London government's legal challenge. They were reminded that the World Health Organisation specifically includes employment conditions in its analyses of public health.

A range of options was then considered. Ministers could bite their collective lip and prepare the necessary legislation. After all, during negotiations two years ago, Mrs Gillian Shephard, the then employment secretary, had succeeded in removing the directive's most restrictive provisions.

Alternatively, they could seek to defer the issue until beyond the general election by delaying the preparation of legislation. In the meantime, the government could use the intergovernmental conference on the future of the EU to seek treaty changes which would close the health and safety loophole. If it was fortunate, such an amendment might apply retroactively.

But Mr Major had just announced his policy of non-cooperation over the EU ban on exports of British beef. The mood was not for compromise. Several ministers spoke in favour of open defiance. There are some conflicts in the accounts of individual positions. But there is no dispute that the minority in favour of upholding the law was heavily outgunned by an alliance of the cabinet's Eurosceptics and traditional moderates. More than one supported a suggestion that the non-cooperation policy over beef should be extended to cover a successful resolution of the working time issue. One minister thought the atmosphere "crazy". Another remarked that "swords had been glinting in the sun".

Mr Major shared the anger. He had negotiated Britain's social chapter opt-out. He has always considered that the opt-out included assurances from the other heads of state that they would not seek to circumvent it. In his eyes, they now stand accused of a grave breach of trust.

The decision, however, provoked visible alarm among the law officers. They reported that such open defiance would inevitably be challenged in the British courts. Just as certainly, the government would be defeated.

By last week, they had stepped up the attack. A briefing note sent to ministers ahead of the second meeting warned that the legal challenge might extend beyond the government. Individual ministers might be held liable by the courts for deliberately denying public sector workers their rights.

The committee retreated, deciding instead on the strategy of delay. Implementation would have to wait until after the election. In the interim, Mr Major would demand changes to the treaty.

It is not clear, however, that the government is yet off the legal hook. It has had ample time to prepare the necessary legislation. Some of its legal advisers believe it could yet be successfully sued for deliberate delay. Ministers are now praying that, against the odds, the court will spring a surprise and rule in the government's favour.

OBSERVER

House and Garden

■ Sir Timothy Garden, appointed yesterday as the new director of Chatham House, the foreign affairs think-tank, has a tough task ahead. The Royal Institute of International Affairs, as it is formally called, faces strategic and financial questions only slightly less perplexing than those of Bosnia or Russia addressed in its seminar rooms.

Sir Laurence Martin, who retires as director at the end of the year, was confronted with the budget predicament when he took up the post six years ago. His predecessor, Admiral Sir James Eberlé had been known as the Red Admiral for his enthusiasm for Gorbachev and détente, slightly ahead of the game by western governments' standards. However Sir Laurence was heard to remark, in his first days in the job, "I didn't realise the 'Red' in 'Red Admiral' referred to the colour of the ink on the balance sheet".

Sir Timothy will face a similar task of juggling resources at a point when the think-tank's main subjects – such as the future of Eastern Europe or relations with China – are at their most thought-provoking.

Still, he has the credentials, having spent much of his life straddling the worlds of defence and policymaking. Former Royal Air Force pilot and Whitehall policy adviser, he was at one point responsible for the long term budget and force planning for all three services, and involved in the retrenchment after the end of the Cold War. May come in handy.

Fokker's musical

■ Willem van Kooten, the Netherlands' biggest independent music publisher, is familiar with life on the airwaves. The next challenge is to refamiliarise Fokker, the failed Dutch aircraft maker, with being airborne.

The man who brought the world seminal 1960s and 1970s stuff such as Golden Earring and Venus, said yesterday he was trying to recruit banks and industrial partners to save the enterprise.

Potential allies include Aalberts and Internatio-Müller, two Dutch groups with links to the transport business, as well as Stork, which is contemplating a purchase of Fokker's support services.

He acknowledges he is just "a small guy", but seems to want to be seen as "the Dutch Richard Branson." Better known in the Netherlands by a now rather unfortunate tag – "Mr 5 per cent" – Van Kooten has taken stakes of that size in ventures such as a sports TV channel which launches in August, a holding he has already sold to the Telegraaf newspaper group.

Van Kooten, 55, is trying to convince interested parties that a moderately industrial nation should keep its high-tech industries together. "The funny thing is, they all agree. But we are a consensus democracy and the consensus also is that they don't want to do anything about it."

Fokker has orders which it could meet, and other European aircraft makers are seeking to spend $1.1bn on developing a similar sized jet to its 70 seater. Still, whatever the receivers might have in mind, 5 per cent of Fokker would be a big bite for the former disc jockey.

KIO's IOU

■ The Kuwait Investment Office is finding that some of its Republican friends in the US, its staunchest allies in the Gulf War, are sounding pretty aggrieved. The accusation? That Kuwait is not sufficiently grateful to its saviours.

Former officials in the Reagan and Bush administration have lobbied a House subcommittee into looking at the question of Kuwaiti business practices "relating to the financial and commercial treatment of US persons".

The subcommittee will look into the sale of facilities owned by Spanish packaging group Sarrio to the KIO for $400m in 1991. The group alleges that the KIO has not paid in full. Richard Haas, top national security aide for the Middle East in the Bush White House, is on Sarrio's international advisory committee. Kenneth Adelman, former chief at the Arms Control and Disarmament Agency, is the advisory committee's chairman. Texas congressmen are also complaining about the loss of a valuable power contract by the Texas-based Wing group, which has on its board Lt. General Thomas Kelly, Pentagon spokesman during the war.

Let's hope the subcommittee sheds light on whether there is substance to the complaints, or whether this is a storm kicked up by the aides on behalf of their corporate friends. Whichever, the KIO will no doubt take the deliberations seriously. Future military assistance, and the favourable tax treatment received by the KIO, could be in the balance.

Wagner's ring

■ Obviously a marriage MAID in heaven. Dan Wagner, chief executive of the on-line information service, gave his fiancée Susie Newall 400,000 ordinary 1p shares (a prezzy of £1.12m at the end of yesterday). All very touching – and no doubt Newall will smile more sweetly than the curmudgeonly analysts who point out that MAID has yet to turn in a profit. Not a good precedent to set, though – just extra money that could go into the pockets of the lawyers drawing up pre-marital agreements.

The Financial Times

100 years ago

A Third Candidate Talked Of
The chances of a success of a third Presidential candidate in the United States are being put forward more strenuously than heretofore by those who will vote neither for Major McKinley nor for the Free Silver candidate the Democrats appear likely to nominate at Chicago. A leading Democrat said yesterday: "The Democrats will throw away their chance in adopting a free silver plank, for there are many Republicans so opposed to Major McKinley that they would have been willing to vote for a third-term Democrat in the person of Mr. Cleveland backed by a sound money plank in his platform."

50 years ago

Demand For Copper
There has been more disagreement since the beginning of the year over the outlook for copper than for perhaps any other commodity. There is a shortage of supplies which is being accentuated by certain artificial factors. For instance, owing to labour shortage, fabricators now tend to ask for several shapes and sizes from their suppliers. Stocks should be correspondingly increased to cater for these varying requirements.

FINANCIAL TIMES
Thursday June 27 1996

Power struggle over 'conditional' resignation

Karadzic threatens to disrupt Bosnia elections

By Laura Silber, Balkans Correspondent, and Paul Wood in Pale

Mr Radovan Karadzic, the Bosnian Serb leader wanted on war crimes charges, yesterday drastically raised the stakes in the struggle over whether he would step down from power.

Mr Karadzic offered to resign only if the international community met a series of conditions for the recognition of his mini-state, Republika Srpska. But he made clear that he would stand in the Bosnian elections if his demands were not met.

Seen as a key obstacle to free elections in Bosnia, Mr Karadzic signed a resignation letter at dawn after a marathon session of the Bosnian Serb leadership. Bosnian Serb officials in Pale, Mr Karadzic's stronghold, said the letter was sent to the government of Serb-led Yugoslavia and also was intended for Mr Carl Bildt, chief international civilian administrator in Bosnia.

But Mr Bildt' s office last night had not yet received the letter. The timetable for a response is tight because the annual meeting of the Serbian Democratic Party, the Bosnian Serb ruling party, which will draw up an electoral list, meets tomorrow.

It was unlikely, however, that the international community would accept the conditions, which violate the Dayton peace plan for Bosnia. Under the plan, suspected war criminals indicted by the UN tribunal cannot stand in elections or hold public office and must be handed over to The Hague.

The letter appeared another manoeuvre orchestrated in order to deflect intense pressure. International mediators have threatened to reimpose sanctions on Serbia unless Mr Karadzic disappears from the political scene. Diplomats, behind the scenes, have set a deadline of July 1 for Mr Karadzic to stand down to enable the Bosnian elections to go ahead.

Western mediators, in particular the US, are anxious to go ahead with elections on September 14 in an effort to stick to the timetable envisaged under the Dayton accords.

But members of the Moslem-led Bosnian government have created a problem by indicating that they would boycott elections if Mr Karadzic and other indicted war criminals remain at large in the run-up to the first post-war poll seen as a crucial test for Bosnia's future.

In a violation of the Dayton pact, Mr Karadzic insisted that Brcko, the north-eastern town at the mouth of the strategic Serb corridor, remain in Serb hands.

Leaders of Serbia, Croatia and Bosnia agreed last November that the status of the strategic town would be decided by international arbitration at the end of the year-long plan. The deal on Brcko enabled western mediators to secure Moslem endorsement of the Dayton plan which would otherwise have failed.

Astra US chief fired after sexual harassment inquiry

By Hugh Carnegy in Stockholm

Astra, the fast-growing Swedish pharmaceuticals group, yesterday fired the chief executive of its US operations. It laid the blame for a series of sexual harassment allegations firmly at his door.

Mr Hakan Mogren, Astra group chief executive, said Mr Lars Bildman, head of Astra USA for 15 years, had been fired without compensation following an internal investigation into the allegations. The investigation showed that Mr Bildman had "abused his position", Mr Mogren said, and that he had developed an "unacceptable leadership style". It had also found evidence that he had used company funds worth some US$2m for private spending.

One other senior executive at Astra USA was also fired and a third agreed to leave, along with one Astra parent company executive. But Mr Mogren denied any widespread fault within the company or its corporate culture.

The main public allegations against Astra were levelled by Business Week magazine which cited a dozen cases where women claimed they were fondled or solicited for sexual favours by Mr Bildman or other executives between 1991 and 1994.

Astra is one of several foreign companies to become embroiled in sexual harassment cases in the US. The US arm of Mitsubishi Motors of Japan is facing a class action suit against it by the Equal Employment Opportunities Commission alleging widespread harassment of women workers. The EEOC is also investigating the Astra case.

But Astra said its problems were the result of "a single man who abused his power". It said it was co-operating fully with the EEOC and any other outside investigation. Astra is facing at least three lawsuits brought against it by former employees alleging sexual harassment.

Astra was careful not to accuse Mr Bildman – who was suspended in May when the allegations were first made by former Astra USA employees – directly of sexual harassment. Lawyers for Mr Bildman have said the allegations against him are totally false.

Astra said: "The investigation found that Mr Bildman exhibited inappropriate behaviour at company functions, primarily internal sales meetings held off company premises. Such conduct is inexcusable for any senior executive of our company."

It added that Mr Bildman had used company money for renovations of his home and holiday travel worth around US$2m.

Mr Mogren denied that senior group management knew of the alleged harassment or financial abuse before being alerted by Business Week in April.

Astra's share price rose SKr6 yesterday to Skr293.

THE LEX COLUMN

Crude politics

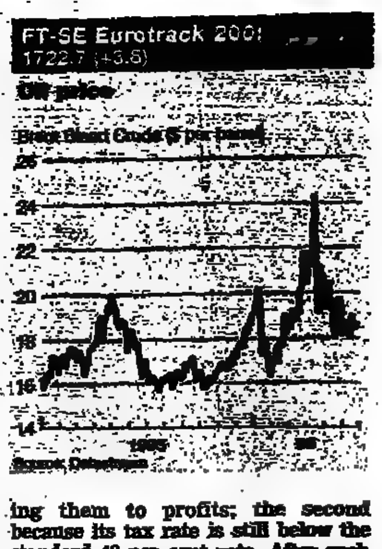
The second bombing in Saudi Arabia in eight months is a powerful reminder that the regime's stability cannot be taken for granted. Nor is Saudi Arabia the only worry in the region; with serious tension in Bahrain and an unpredictable new government in Israel, the oil market is growing understandably nervous that the temperature in the Middle East is rising. Both the Iranian revolution and the Gulf war sent oil prices sky-high; serious disruption to Saudia Arabian supplies could send them higher still.

But such an outcome remains very unlikely. The Saudi Arabian government's grip on power looks formidable. Moreover, whoever runs the country will ultimately be as dependent on oil revenues as the West is on oil – so long, that is, as complete chaos or the most extreme kind of fundamentalist regime is avoided.

Frightening as these worst-case outcomes may sound, the much bigger risk for investors is not that the country will collapse but that its oil strategy will change – for instance, if the relatively unknown Prince Abdullah succeeds the sickly King Fahd. In theory, the country could either cut production back sharply to push the oil price up or step production up and hope additional revenues offset the inevitable price collapse.

The fact that neither is obviously in the country's long-term financial interest does not necessarily mean it might not give one a try – especially given the pressing need for cash to keep the population sweet. The snag for investors, of course, is that such a change of tack is impossible to pre-empt, since it could send the oil price in either direction.

FT-SE Eurotrack 200: 1722.7 (+3.6)



Mediaset

Such is the controversy swirling around Mediaset, Mr Silvio Berlusconi's television empire, that many investors will give its flotation a miss. But some may still be tempted on the theory that shares sold in unpromising circumstances will come cheap. Indeed, an initial glance suggests that they are. Goldman Sachs, one of the few independent brokers with a forecast, predicts L450 earnings per share this year. At the mid-point of the selling range, the price/earnings multiple is 15. Comparable European TV stocks, Britain's Carlton Communications and France's TF1, trade on multiples of 18-19.

However, to make a fair comparison, two adjustments should be made. The first stems from Mediaset's curious policy of amortising television rights over several years rather than charging them to profits; the second because its tax rate is still below the standard 48 per cent rate. After such adjustments, Mediaset's prospective p/e rises to about 17 – only a touch below its peers.

Mediaset's aspirations in mobile communications give it an appeal that Carlton and TF1 lack, but its core TV business is under greater threat than theirs. If Italy's state-owned Rai is privatised, restrictions limiting the amount of advertising it can air would probably be relaxed. Intensifying competition would then cut both Mediaset's dominant share of ad revenue and the rates it could charge. Take into account the other risks – such as the judicial investigations into Mediaset managers and the possibility that it may have to divest one of its channels – and the shares do not seem worth the punt.

British Biotech

Biotechnology companies have to raise money well before they need it, so British Biotech is being pragmatic rather than greedy in launching a £143m ($218.8m) rights issue when it still has £88m of cash in the bank. Shareholders are hardly going to quibble: for a total outlay of £350m since foundation they now own a company capitalised at over £1.5bn.

Moreover, this is British Biotech's last fund raising. If it succeeds in getting its first two drugs to market in the next three years it will become highly profitable and able to finance future growth from cash flow and debt. If it fails, it will hardly be in a position to go back to shareholders – nor would there be much point.

The odds on success are shortening all the time. Marimastat, its key anti-cancer treatment, has just received US regulatory approval to start late-stage clinical trials. There is growing evidence that it is effective against a whole range of cancers, which could propel it to peak sales of £1bn or more. The fact that the rights money will in part be used to build up a sales force for Marimastat in Europe and America is a testament to the management's confidence. And with compounds against pancreatitis, asthma, arthritis and multiple sclerosis also under development, British Biotech is on the way to becoming a fully-fledged pharmaceuticals company. Even so, valuing the shares remains subjective with analysts suggesting anything from £20 to more than £100, compared with a current price of £23.75. Having seen the price rise six-fold in less than a year, investors should take up the rights and hang on.

Nuclear privatisation

The price range for the British Energy sale is so wide the government might just as well not have bothered publishing one at all. That, of course, reflects the unusually broad range of valuations being bandied around, which in turn reflects the difficulty of predicting future electricity prices. The risks are certainly real. Is this, then, an offering to be approached with full protective clothing?

Actually, it should give off a pretty warm glow. Compare it with Railtrack: British Energy has less political risk, its cash flow dividend cover is more generous and its balance sheet even laxer. On that basis, the decision looks obvious – especially if, as many think, the shares could start life on an even higher yield.

Of course, there are worries as with Railtrack, there is less risk the management will fritter away shareholders' cash on grandiose new projects; British Energy has done nothing to dispel the impression that this is a real worry for the longer term. Moreover, while Railtrack's revenues are secure, British Energy's are vulnerable to lower electricity prices. And prices are bound to come under pressure in the end, when real competition is finally imposed on the market. Nonetheless, in the near term, the outlook looks reasonably benign – better, certainly, than many fear.

These may not be shares to hold on to for life. But their half-life at least – as investors get to grips with the scope for cutting the company's costs and gearing up its balance sheet – looks distinctly promising.

Additional Lex comment on Danka, Page 22

VW halts expansion

Continued from Page 1

allow any state aid in the car sector unless it was strictly necessary to compensate for problems in disadvantaged regions.

The two German commissioners, Mr Martin Bangemann and Mrs Monika Wulf-Mathies, are understood last week to have delayed a decision on the case.

But they are thought this week to have been unable to persuade other commissioners to reject the advice of the Brussels competition directorate to cut the aid.

Volkswagen said it "considers the investment in Saxony clearly as new investment, a judgment that was shared until recently even by EU experts". It has shelved the plans "with immediate effect".

At Mosel, VW is already producing its Golf series car, and had hoped to expand the site between 1997 and 1999 to 750 cars a day. Capacity at the Chemnitz plant was also to be increased at the same time through a new engine production facility.

Saudi bomb

Continued from Page 1

he had spoken to King Fahd, the Saudi monarch, who had "expressed his deep regret at our loss and his determination to find those responsible."

Mr Warren Christopher, US Secretary of State, yesterday interrupted his tour of the Middle East to revive Arab-Israeli peace talks and flew to Saudi Arabia to show support for US troops and survey the damage at the air base in Khobar, near Dhahran.

Malaysia reforms stock exchange to challenge Singapore

By James Kynge in Singapore

Malaysia is to allow companies from other countries to list shares on its main stock exchange in a move designed to challenge Singapore as the region's financial hub.

Mr Munir Majid, chairman of Malaysia's Securities Commission, said yesterday that he hoped the initiative would help broaden and deepen the Kuala Lumpur Stock Exchange, the third biggest in Asia after Tokyo and Hong Kong in terms of market capitalisation.

He did not indicate when the liberalisation would take effect but said that it would be a phased reform. Foreign companies which were "promoted and controlled" by Malaysians would be the first to list on the exchange.

The development follows comments earlier this week by Mr Ron Sommer, chairman of Deutsche Telekom, the biggest telecoms operator in Europe, that the company was "thinking intensively" of a listing in Asia after privatisation in Germany in November.

Mr Sommer did not say whether Malaysia was being considered, but Deutsche Telekom's deal to buy 21 per cent of Technology Resources Industries, a prominent local telecoms company, could make the German company a candidate for a listing. A Malaysian listing would encourage foreign investors to apply for all or some of the preferential terms available to local companies in the domestic market, analysts said.

If Deutsche Telekom secured a listing on the Malaysia exchange it would bring immense prestige to the bourse and help attract international portfolio investors.

In addition, companies with a secondary listing in Malaysia would be more likely to choose Kuala Lumpur as a regional headquarters – a role now more often filled by neighbouring Singapore. Singapore already allows foreign listings.

There would be other important spin-offs for Malaysia, say analysts.

Mr Neil Saker, senior regional economist at Crosby Securities in Singapore, said: "Malaysia is clearly hoping that foreign firms will be more committed [to the country] and transfer the type of technology that the seventh [five-year economic] plan requires."

Mr Munir said that the Securities Commission has submitted a proposal to the finance ministry to establish an over-the-counter (OTC) trading market for domestic high-technology companies. Such a market would provide an alternative source of capital for companies too small to list on the stock exchange's second board.

He said an OTC market should not replace or compete with current forms of financing for high-technology industries such as bank loans and venture capital funds.

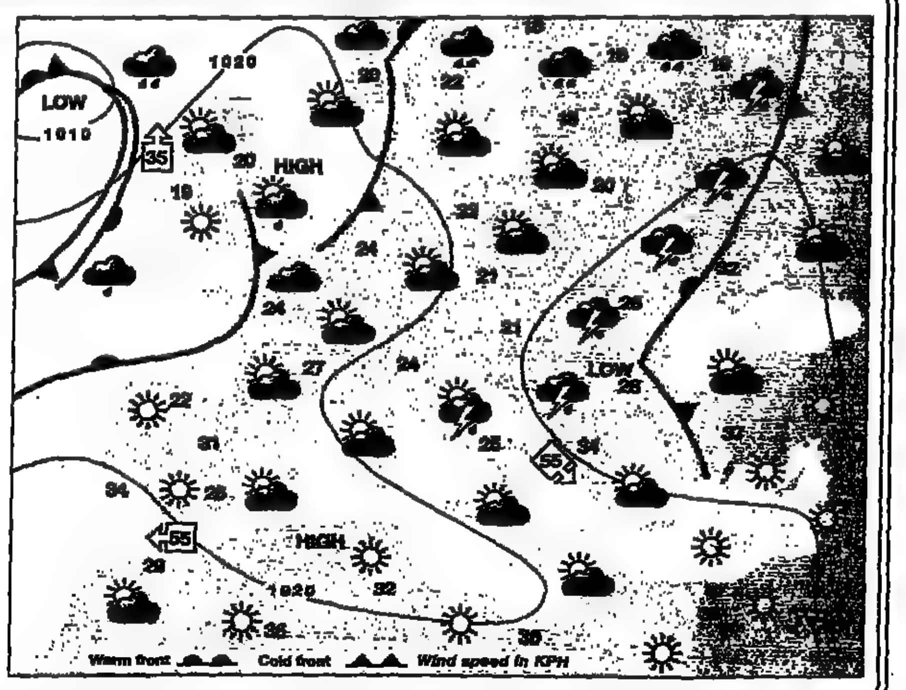
FT WEATHER GUIDE

Europe today

Scotland, Wales and eastern Ireland will be dry and sunny. England will have sunny spells with showers in the south. Cloud will approach Ireland from the west in the afternoon. A weak disturbance will produce cloudy but dry conditions in the Benelux. Southern Germany, the Alps and France will be dry and sunny. The Iberian peninsula will have plenty of sunshine. Southern Scandinavia will be warm with sunny spells. Cloud will prevail in western Russia with patches of rain. An upper air disturbance will produce showers from the Ukraine, across the northern Balkans and into central Italy. The south-east Mediterranean will be hot and sunny.

Five-day forecast

The Iberian peninsula will remain sunny and warm. High pressure will promote dry and sunny conditions in Italy. South-east Europe will continue hot and sunny until the weekend when thunder showers will spread south-east across Turkey. The British Isles and the Benelux will be unsettled.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius																
Abu Dhabi	sun	38	Beijing	fair	31	Caracas	fair	31	Faro	sun	28	Madrid	sun	30	Rangoon	fair	30
Accra	sun	28	Belfast	cloudy	19	Cardiff	fair	21	Frankfurt	sun	25	Majorca	sun	28	Reykjavik	cloudy	11
Algiers	sun	29	Belgrade	rain	19	Casablanca	sun	27	Geneva	fair	24	Malta	sun	28	Rio	fair	24
Amsterdam	cloudy	17	Berlin	cloudy	21	Chicago	sun	30	Gibraltar	sun	24	Manchester	fair	21	Rome	shower	24
Athens	sun	31	Bermuda	fair	27	Cologne	fair	22	Glasgow	cloudy	18	Manila	fair	31	S. Frsco	fair	20
Atlanta	fair	31	Bogota	cloudy	17	Dakar	sun	30	Hamburg	cloudy	19	Melbourne	shower	14	Seoul	cloudy	25
B. Aires	rain	6	Bombay	cloudy	31	Dallas	fair	36	Helsinki	fair	18	Mexico City	fair	23	Singapore	cloudy	31
B.ham	fair	23	Brussels	fair	21	Delhi	cloudy	32	Hong Kong	cloudy	30	Miami	fair	32	Stockholm	cloudy	22
Bangkok	cloudy	34	Budapest	thund	20	Dubai	sun	37	Honolulu	fair	31	Milan	fair	28	Strasbourg	cloudy	24
Barcelona	fair	23	C.hagen	fair	20	Dublin	cloudy	18	Istanbul	sun	32	Montreal	shower	24	Sydney	fair	15
			Cairo	sun	34	Dubrovnik	shower	24	Jakarta	fair	31	Moscow	cloudy	19	Tangier	sun	26
			Cape Town	sun	17	Edinburgh	fair	22	Jersey	cloudy	18	Munich	fair	21	Tel Aviv	sun	29
									Karachi	sun	35	Nairobi	fair	24	Tokyo	cloudy	27
									Kuwait	sun	45	Naples	shower	27	Toronto	sun	25
									L. Angeles	fair	23	Nassau	fair	32	Vancouver	shower	20
									Las Palmas	sun	27	New York	fair	27	Venice	fair	21
									Lima	cloudy	18	Nice	fair	25	Vienna	cloudy	21
									Lisbon	sun	32	Nicosia	sun	40	Warsaw	cloudy	29
									London	shower	22	Oslo	fair	23	Washington	fair	27
									Luxbourg	fair	23	Paris	fair	24	Wellington	fair	12
									Lyon	fair	24	Perth	fair	15	Winnipeg	fair	25
									Madeira	sun	26	Prague	cloudy	20	Zurich	cloudy	20

هكذا من الاصل

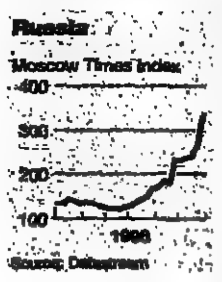
FINANCIAL TIMES
COMPANIES & MARKETS
Thursday June 27 1996

IN BRIEF

Holzmann warning lifts takeover rival

The fierce takeover battle between Philipp Holzmann and Hochtief, two of Germany's largest construction groups, appeared to move Hochtief's way after Holzmann warned it would not pay a dividend for this year – just weeks after it cancelled its 1995 dividend. Page 16

Moscow equities reach fresh peak



In Moscow, shares continued their climb and reached a record as the Moscow Times index rose 17.42, or 5.4 per cent, to 337.69. The index has jumped about 90 per cent since mid-May. Traders said western investors were flooding the market with buy orders amid growing confidence that Mr Boris Yeltsin, the Russian president, will win re-election in next Wednesday's second round poll. Page 38

Telecom Eireann selects partners
A consortium linking Koninklijke PTT Nederland, the privatised Dutch telecommunications company, with Telia of Sweden has been selected as the strategic partner for a 35 per cent stake in Telecom Eireann, Ireland's state-owned telecoms company. Page 18

Costain in talks as shares suspended
Costain is in talks with a potential south-east Asian investor considering taking a large stake in the UK construction group. It called for its shares to be suspended after they fell 31p to 39p. Page 21

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				Technip	467	+	7
Rises				**Falls**			
Allianz	1161	+	18.5	[illegible]	178.9	-	7.7
[illegible]	1073	+	31	[illegible]	[illegible]	-	[illegible]
[illegible]	608.5	+	8.5	Club Med	1293	-	25
Viag	610	+	9.5	Cred Lyon	121.5	-	7.9
[illegible]	888.5	+	9	Intertechnique	673	-	19
Falls				**TOKYO (Yen)**			
[illegible]	532	-	10	**Rises**			
NEW YORK ($)				Aida Corp	482	+	24
Rises				[illegible]	995	+	15
[illegible]	25⅞	+	1⅛	[illegible]	898	+	100
[illegible]	24¼	+	2⅛	[illegible]	918	+	36
[illegible]	22⅞	+	1⅛	**Falls**			
Falls				Denny's Japan	3790	-	180
Dana Corp	30⅜	-	3	[illegible]	2110	-	110
[illegible]	27⅞	-	3⅛	**HONG KONG (HK$)**			
[illegible]	19⅞	-	3	**Rises**			
LONDON (Pence)				Johnson Elec	17.6	+	0.8
Rises				[illegible]	3.775	+	[illegible]
[illegible]	151	+	10	[illegible]	[illegible]	+	0.2
NFC	186	+	13	[illegible]	26.15	+	0.65
[illegible]	240	+	6	**Falls**			
Falls				[illegible]	1.49	-	0.08
[illegible]	30	-	31	[illegible]	2.2	-	0.15
[illegible]	400	-	195	[illegible]	5.76	-	0.13
[illegible]	207	-	15	**BANGKOK (Baht)**			
TORONTO (C$)				**Rises**			
Rises				[illegible]	65.0	+	5.0
[illegible]	4.1	+	0.60	[illegible]	438.0	+	34.0
[illegible]	3.25	+	0.75	[illegible]	42.75	+	3.75
[illegible]	8.0	+	0.50	**Falls**			
Falls				[illegible]	104.0	-	11.0
Aber Res	18.6	-	1.50	[illegible]	38.5	-	3.5
[illegible]	21.0	-	3.1	[illegible]	53.0	-	5.5
[illegible]	8.5	-	1.80				
PARIS (FFr)							
Rises							
[illegible]	298.5	+	13.5				

† Price at suspension. New York and Toronto prices at 12.30pm.

Fiat to sell off New Holland stake

By Andrew Hill in Turin

Fiat, the Italian vehicle and industrial group, is to sell off a minority stake in New Holland, its London-based agricultural and construction equipment subsidiary, by the end of the year.

Mr Cesare Romiti, chairman, told shareholders at the annual meeting in Turin the group would sell 30-40 per cent of New Holland, probably on the New York and Milan markets.

The issue would "bring major economic gains and a considerable inflow of cash", although he did not specify the amount. Fiat also announced this week it was to set up a $1bn multicurrency credit facility which would allow it to draw down loans at lower interest rates than at present over the next seven years.

Fiat needs the financial flexibility to continue its expansion programme, which includes selling its new Palio "world car" in South America and later China, India and south-east Asia. "Our investments will be extremely broad in the coming years, so the money which should arrive from these sales could be used for this," Mr Romiti said.

Fiat has appointed Mediobanca, the Milan merchant bank, and Goldman Sachs of the US, to work on the New Holland sale.

The subsidiary was formed in 1991 from the agricultural and earthmoving equipment interests of Ford of the US. Ford retained a minority stake which was bought out by Fiat in 1993.

New Holland, which is registered in the Netherlands and has its headquarters in London, returned to profit in 1994 and now contributes about 10 per cent of Fiat group sales.

Mr Romiti, who took over from Mr Gianni Agnelli as chairman in February, also confirmed that he would step down as chairman in June 1998, when he will be 75.

Mr Agnelli's nephew, Mr Giovanni Alberto Agnelli, who heads the Piaggio scooter group and is a Fiat director, is tipped to take over, although he will still be in his mid-30s in 1998. Fiat is controlled by the Agnelli family through the quoted holding companies Ifi and Ifil.

Fiat confirmed it suffered a decline in margins in the first quarter of 1996, when pre-tax profit slipped to L464bn ($301.5m), against L608bn a year earlier. But Mr Romiti said the situation had improved and Fiat expected the full-year margin to be only slightly lower than 1995's 4.4 per cent. Full-year turnover is expected to be at least L80,000bn, against L75,632bn in 1995. Last year, Fiat announced a net profit of L2,147bn.

Mr Romiti told shareholders 1996 would be "another difficult year", because of continued weak demand in Europe, and Italy in particular, the strengthening lira, and the slump in the important Brazilian market.

Apart from confirming Mr Romiti as chairman and Mr Paolo Cantarella, previously head of Fiat Auto, as chief executive, Fiat also elected four new directors: Mr Paolo Fresco, vice-president of General Electric of the US, Mr Gianfranco Gutty, chief executive of Generali, the Italian insurer, Mr Gabriele Galateri di Genola, chief executive of Ifil, and Mr Franck Riboud, chairman of Danone of France.

New York tractor float, Page 16

British Biotech in £143m cash call

By Clive Cookson, Science Editor

The UK biotechnology sector took two more steps towards maturity yesterday. British Biotech said it was seeking £143.4m ($219.4m) in a one-for-eight rights issue to build the infrastructure needed to become a big international pharmaceutical group. And Chiroscience said its first product, a painkiller for arthritis patients, had reached the market.

British Biotech's rights issue will be the UK sector's biggest fund-raising exercise. It follows a year in which the company's share price has raced up from less than 500p to a peak of £35.50 a month ago, after promising trial results for its oral cancer drug, marimastat. Its shares fell 5p to £23.75 yesterday.

Chiroscience, which raised £40m in a share placement last month, said dexketoprofen, its arthritis drug, was launched in Spain this week by Menarini, its Italian marketing partner. Its shares closed up 1p at 438p.

"This is one of the first development programmes to reach the market from any company in the UK emerging pharmaceutical sector," said Lord Chilver, Chiroscience chairman.

British Biotech said the £143.4m raised by issuing 7.2m new shares at £20.50 each would enable it to finish developing marimastat and the lexipafant treatment for pancreatitis, and to build European and North American operations.

British Biotech also announced a pre-tax loss of £25.2m for 1995-96, down from £26.3m in 1994-95.

"The rights issue is an important step for British Biotech in achieving its objective of building a new international pharmaceutical company," said Dr Keith McCullagh, chief executive. The group has cash and investments worth £66m. It does not expect to seek more money from shareholders before lexipafant and marimastat reach the market.

Some analysts had expected British Biotech to wait until later this year or early 1997, when it had more data for marimastat, before a rights issue.

Mr James Noble, finance director, denied the company was being unduly opportunistic in its timing, when the share price was inflated by excitement about marimastat.

British Biotech stands out among UK rivals for the scale of its ambition to be a leading world pharmaceutical group.

Mr Noble said it envisaged an eventual sales force of about 500.

Chiroscience, in contrast, "still intends to become a world-class drug discovery and development company, rather than a major integrated pharmaceutical company", said Dr John Padfield, chief executive.

Lex, Page 14

Rockwell chief dismisses talk of demerger but keeps his options open

A US defender large enough to fight for itself

According to persistent rumours Rockwell International, the US manufacturer, is thinking of selling its defence business. To those with long memories, this might seem bizarre. If ever a company typifies what President Dwight Eisenhower called the military-industrial complex, it is Rockwell.

This, after all, is the company which first put Americans into space, then on to the moon. If Armageddon ever happened, America's bombs would be dropped from Rockwell aeroplanes. Its intercontinental missiles would be steered by Rockwell electronics.

But in these post-cold war days, the US defence industry is in a fever of amalgamation. As defence budgets have shrunk, Rockwell – like many in the industry – has changed shape. A decade ago, the Pentagon and Nasa, the space agency, accounted for nearly two-thirds of its business. The figure is now around a quarter.

Mr Don Beall, Rockwell's chairman and chief executive, treats the speculation with studied ambiguity. The company's defence business, he says, is big enough to stand alone. It also confers technological and other benefits on the company's other divisions.

"Having said that," he adds, "we're very mindful of the consolidation going on in defence here and around the world. Chairmen are talking to chairmen all the time. If I ever thought there was a combination which would be a stronger business, we'd do it. It would probably not be within the structure of Rockwell as it is today."

As those with even longer memories may recall, Rockwell has not always been in the defence business. It began life making truck axles, and automotive components still account for a quarter of the company, with sales of more than $3bn.

But that business, or parts of it, could also be for sale. "Automotive doesn't have to be an integral part [of Rockwell]," Mr Beall says. "If we ever felt it couldn't reach our long-term objectives, there are lots of alternatives."

So what is integral to Rockwell? Two businesses, it appears. First is factory automation, which Rockwell entered in 1984 with the acquisition of Allen-Bradley. With the addition 18 months ago of Reliance Electric, bought for $1.6bn, it has consolidated its position as the biggest factory automation company in North America.

Second is its semiconductor business. Rockwell says it has 70 per cent of the world market for the chips which drive modems in personal computers and fax machines. With the explosion of the Internet, Rockwell expects sales to double this year to more than $1.5bn. It has a $1.2bn programme to increase capacity.

Guarded secrets: Don Beall, Rockwell chief, is keeping his plans quiet

Acquisitions are planned. In automation, Mr Beall says, Rockwell's objective is to double revenues to $8bn by 2000. "We couldn't do it without another major acquisition or two. If we just grew the present business, we would reach $5.5bn or $6bn. In Europe, I've knocked on a lot of doors. A lot of the businesses I'd like are owned by other people who want to keep them, and a lot are still family owned."

Selling businesses remains another option. Rockwell has just disposed of its newspaper printing press business – another world leader – for $600m. But Mr Beall is careful to deny that Rockwell is joining the demerger fashion, or is uncomfortable with diversity.

"Most of us [in Rockwell] grew up in a multiple business environment," he says. "We're a lot simpler now than in the days when we were making industrial sewing machines and oilfield valves. If we separated our aerospace and automotive businesses we'd be easier to understand – and that's all I'm going to say about that."

The impression remains that getting rid of the aerospace and defence business, in its entirety at least, would go against the grain. Some parts of the business, Mr Beall concedes, might offer scope for rationalisation if combined with competitors. "But the practical reality is that if I sold our rocket engine business to Lockheed Martin [the biggest US defence company], what would they do to save money? They're not in that business."

Nor does he accept the prevailing wisdom that the technology of defence has become so specialised as to be commercially useless. "I think the technological flow from defence into commercial markets is certainly still important. We also operate our defence business in a commercial way, with a lot of our managers going back and forth. It's a two-way process with us, more than with most companies."

Again, though, he qualifies his position. "If we ever did lose [our defence technology], we'd find ways to compensate."

In part, this hedging is caused by the desire to leave options open, but it may have another aspect. Mr Beall became president of Rockwell at the age of 39, and has been chairman for the past eight lyears. Now 57, he has not decided when to retire. "But I don't think you'll see me here when I'm 65. That would be too long."

In other words, Rockwell in its present form is largely Mr Beall's creation, and in the foreseeable future he will be handing it on. The shape of the company at that point may simply not have been decided yet. It seems clear, though, that the decision when it comes will be mainly Mr Beall's.

Tony Jackson

Online satellite service set for Japan

By Michiyo Nakamoto in Tokyo and Louise Kehoe in San Francisco

Nintendo, Microsoft and Nomura Research Institute are launching an online information service in Japan that will use a combination of satellite communications and standard telephone lines to deliver information and entertainment services to home computers.

The service, to begin by the middle of next year, aims to win a share of Japan's growing market for online information services by combining existing Internet information with new entertainment services to be developed by Nintendo, one of the leading manufacturers of video game systems.

The joint venture, to be established in the fourth quarter of this year, will provide online services such as sports news, online shopping and entertainment using a TV broadcasting satellite system operated by St Giga, in which Nintendo owns a stake of just under 20 per cent.

More than 10m Japanese homes are connected to the St Giga broadcasting satellite. Users of the new service will need a satellite dish and tuner and a specially designed satellite modem installed in a PC.

"The PC is becoming a communications tool," said Mr Bill Gates, chairman of Microsoft, the US software company. "I think the venture really draws on the strengths of all three companies."

The companies said the service would make the Internet more accessible in the home by providing high-speed access. Currently, most PC users access the Internet via modems linked to standard telephone lines but transmission rates are slow.

"It is very time-consuming to obtain graphics via the telephone line but data on the Internet will increasingly involve graphics," says Mr Hironobu Sawake, analyst at Nikko Research Center.

He said the advantage of this system appeared to be that it could send graphics rapidly by using satellite broadcasting.

In the US, Microsoft is working with Direct TV to develop a similar service that is scheduled to be launched early next year.

Air France operating profits rebound

By David Owen in Paris

Air France yesterday reported its first annual operating profit of the 1990s. But the state-controlled carrier recorded a net loss of nearly FFr3bn ($570m) after provisions of FFr2bn for a voluntary severance scheme and other labour measures.

The figures also excluded the results of Air France Europe, the carrier's domestic partner, which recorded a large operating loss.

In an effort to address this, Air France Europe yesterday announced the closure of 18 routes, with effect from October 27. It said this would enable it to improve its operating result by about FFr350m.

Air France Europe is also approaching a crucial stage in negotiations with its pilots over attempts to align their pay and conditions with those of their Air France counterparts; at present, Air France Europe pilots receive between 10 per cent and 15 per cent more.

Air France has said it would delay a planned merger of Air France Europe and its own European operations if the domestic pilots did not agree a remuneration package by the end of this month. The merger is set for April next year.

The net loss at Air France for the year to March 31 amounted to FFr2.87bn – against FFr467m in the corresponding 1994-95 period. The earlier figure was helped by FFr2.51bn in capital gains.

Turnover fell 1.8 per cent from FFr40.18bn to FFr39.44bn. The company said adverse currency fluctuations affected sales by about FFr1bn. It said the public-sector strikes that swept France in December 1995 resulted in a decline in revenues of FFr300m. The average number of employees fell by nearly 2,000 to 36,484.

The airline's operating profit totalled FFr418m, compared with a loss of FFr902m in 1994-95. Its pre-tax loss totalled FFr968m, against a FFr3.2bn loss. The net loss prior to restructuring provisions was FFr878m, compared with a FFr2.69bn loss.

The 1994-95 financial period originally lasted 15 months because of a change in the company's year-end, but comparative figures have been taken from pro forma accounts covering April 1 1994 to March 31 1995.

Air France Europe, the former Air Inter, reported a net loss of FFr661.4m for the 15 months from January 1 1995 to March 31 1996 – against a net profit of FFr20.9m in the 12 months of 1994.

The company attributed the deterioration to "social conflicts" and the effect of the opening of its domestic network to competition from other French airlines. Operating losses for 1995-96 totalled FFr549m.

Turnover for the 15 months to March 1996 was FFr13.6bn, compared with FFr11.7bn for 1994. The company said the number of passengers carried in the 1995 calendar year was down 7.5 per cent compared with 1994.

Fifteen of the 18 Air France Europe routes to be closed are between France and cities in the UK, Spain and Portugal. The three internal French routes to be closed are from Paris to Nantes, to Toulon and to Perpignan.

Air France is waiting to find out whether the European Commission will allow it to receive the third and final tranche of a FFr20bn state aid package. A decision is expected in mid-July.

Other European airlines, including KLM of the Netherlands and Germany's Lufthansa, have complained that Air France is using state aid to fund cuts in fares. Air France has also reached agreement with Airbus Industrie for the delivery of five Airbus A340-300s, originally ordered in 1989.

Holzmann warning gives succour to Hochtief

By Michael Lindemann in Bonn

One of Germany's fiercest takeover battles between two of the country's largest construction groups, Philipp Holzmann and Hochtief, appeared to move Hochtief's way yesterday after Holzmann warned it would not pay a dividend for this year – just weeks after it cancelled its 1995 dividend.

Holzmann recently reported surprise net losses of DM443m ($289m) after it had to write down the value of several property investments.

A London-based construction analyst said the group's continuing difficulties now meant that Deutsche Bank, which holds 25.8 per cent of the company – and could hand control to Hochtief – would be increasingly inclined to see Hochtief take over.

"I think Deutsche Bank's preferred out would be for Hochtief to come in – subject to agreement from the cartel authorities," the analyst said.

The Berlin-based cartel office is investigating Hochtief's proposed takeover and in an initial ruling rejected the idea, arguing that the merged group would dominate Germany's otherwise very splintered construction market. The two sides are due to meet again in court in November.

Another analyst specialising in construction companies who attended Holzmann's annual general meeting in Frankfurt suggested that the group may also fail to pay a dividend in 1997 after Mr Lothar Meyer, chief executive, said Holzmann faced "very difficult years" this year and next.

Hochtief already holds 24.9 per cent of Holzmann and has parked a further 10 per cent with Commerzbank, the leading German bank which is close to Hochtief, subject to a final ruling by the cartel office.

Holzmann's warnings come on the heel of other forecasts by leading German construction groups which are considerably more optimistic.

Mr Hans-Peter Keitel, Hochtief's chief executive, said earlier this week that while it was too early to make forecasts for the full-year, new orders from outside Germany more than made up for a very depressed German construction market.

Strabag, another leading construction group, said yesterday it expected a "moderate" increase in construction output – the sector's equivalent of sales – and a significant improvement of its operating results. Strabag's 1995 pre-tax profits fell to DM26m, down from DM82m a year earlier.

Several analysts warned that part of Holzmann's continuing difficulties had to do with its lack of rigour in writing down the value of its property investments.

KPMG Deutsche Treuhand, the auditors who had valued the investments, recommended that the group write down investments worth DM536m, but Holzmann eventually decided to write down investments worth DM458m. "There are some more time-bombs ticking away there," the analyst said.

Holzmann said, meanwhile, that results in the first five months had been considerably better than in the first three months, when construction projects had almost come to a standstill because of the bitterly cold winter in Germany.

During the first five months to May 31 construction output totalled DM4.5bn, 3 per cent lower than last year, while the group had booked new orders worth DM5.9bn, some 5 per cent more than in the equivalent period last year.

Court gives go-ahead for CFF meeting

By Andrew Jack in Paris

Shareholders in Crédit Foncier de France, the troubled specialist property lender, yesterday failed in their attempt to delay the group's annual general meeting, due to be held on Friday.

The Paris commercial court rejected the investors' claim that the provisional 1995 accounts circulated by CFF and qualified by its auditors were inadequate and justified delaying the assembly.

The decision came during a tense week for investors in a number of French groups. Eurotunnel, operator of the Channel tunnel railway link, holds its annual general meeting today amid tensions over a proposed restructuring plan with its creditor banks.

Separately, minority shareholders in Compagnie d'Investissements de Paris, an investment company, expressed their frustration at the decision of Banque Nationale de Paris, the majority investor, to reject a counter-bid launched on the company.

Mr Jérôme Meyssonnier, chairman of Crédit Foncier de France, said yesterday that he could "only rejoice" at the decision of the court to reject criticisms from shareholders about the reasons behind changes in accounting policies, which partly explained FFr13bn ($2.5bn) in provisions announced for 1995.

He said there was no question that he was making excessive provisions. The write-offs had been taken to reflect a sharp deterioration in the Paris property market, as well as the need to reflect a realistic assessment of its assets which would allow strong credit ratings.

Shareholders in Crédit Foncier have criticised the size of the provisions, and restructuring proposals which could make their investment in the group almost worthless.

They have threatened to attempt to block approval of the group's accounts on Friday and to vote against a capital reduction plan, while discussing a demerger of the group to help resolve its difficulties.

Fiat targets New York for tractor float

Mr Cesare Romiti, Fiat chairman, said yesterday the group would probably sell 30 to 40 per cent of New Holland, seeking a listing in New York by the end of this year. The details will be fixed later by Mediobanca, the Milan merchant bank, and Goldman Sachs, the US investment bank, which will handle the sale.

Ploughing a rich furrow

New Holland (lire bn)

	Turnover	Cash flow*	Capital Expenditure	Profit before minority interests	Number of employees
1995	8,150	581	215	392	18,820
1994	7,600	761	138	576	19,651

* Group income before minority interests, plus depreciation.

Fiat (lire bn)

	Net Revenues	Cash flow	Capital Expenditure	Number of employees
1995	75,692	6,778	5,651	237,426

Source: Fiat

One Milan-based analyst warned yesterday that the tractor market had already reached the top of its cycle. New Holland staged a strong return to profit in 1994, when it recorded a profit before minority interests of L576bn ($375m), against a loss of L148bn the previous year, but although the group increased sales in 1995, its profit slipped by 31 per cent. Fiat blamed the crisis in the Brazilian agricultural sector – which bought only 17,600 tractors in 1995, compared with 38,500 in 1994 – and difficulties in the sourcing of components for the decline.

But even if New Holland has passed its recent peak, analysts still concede that the capital gain on the sale of a minority stake will be "huge", given that the book value of New Holland NV, the Dutch-registered holding company for the group, was only L237bn at the end of 1995.

"As one of the biggest companies in the world producing agricultural and construction equipment, its capitalisation [in our balance sheet] is much lower than we expect to get for it on the market," said Mr Romiti at yesterday's Fiat shareholder meeting in Turin, although he did not put a figure on the amount the group hoped to raise from a sale.

The decision to list New Holland, rather than directly seek a buyer or partner among its tractor industry rivals, reflects both the anti-trust difficulties which would certainly have been encountered by the latter course both in Europe and in North America – as well as likely lack of interest from companies big enough to be in a position to make an offer.

Between them, just four groups dominate the tractor markets of both Europe and North America. New Holland is Europe's market leader, with about 19 per cent of the 180,000 units a year sector, followed by John Deere of the US with 12 per cent, Massey-Ferguson with 11 per cent and JI Case with 10 per cent.

In North America, John Deere leads the market with a 35 per cent share. Case has 23 per cent, New Holland has 16 per cent and Agco, based in Georgia, Atlanta which owns Massey-Ferguson, 12 per cent.

Any further concentration would mean tangling with both US federal anti-trust authorities and the European Commission, points out Mr Christopher Barrow-Williams, research director of London-based analysts Off-Highway Research.

However, it is also hard to envisage any strong industrial or commercial imperatives for one of the other Big Four to seek a large stake in New Holland.

The tractor industry has been undergoing restructuring and the other leading groups are close to completing reorganisations giving each a substantial presence in the sector's leading markets.

For example, Case, whose flotation on Wall Street in three tranches was completed by US industrial conglomerate Tenneco last year, is completing construction of a large new production facility at Doncaster in the UK, about 150 miles north of New Holland's own principal manufacturing plant at Basildon in Essex.

In addition, it has just acquired the tractors business of Steyr-Daimler-Puch, the Austrian engineering group, and now has strong representation across Europe to complement its main manufacturing operation at Racine, Wisconsin.

On top of the cash likely to be raised from the New Holland flotation, Fiat has just appointed banks to organise a $1bn multi-currency credit line, to last for the next seven years.

Fiat had net debt of L3,497bn at the end of March, an increase of nearly L900bn from the level on December 31, but the main reason for renewing the credit line and divesting part of New Holland is to raise money for further expansion in Italy and abroad.

"The problem we have ahead of us is one of new developments," said Mr Romiti yesterday. "That means starting new initiatives, opening new markets, producing in areas – such as south-east Asia, China and India – where you can't sell cars unless you manufacture in the country itself, and increasing our efforts in the Mercosur [the south American free-trade area]."

For Fiat, the disposal of a minority stake in one of its largest subsidiaries would mark a change of tack compared with last year's plan to inject its chemicals and biomedical subsidiaries, headed by Snia BPD, into the complex planned merger between Gemina, the investment company, and Ferruzzi Finanziaria, the holding company.

That plan, later abandoned, would have raised about L700bn for Fiat. Mr Romiti said yesterday that there were no plans to break up or sell off Snia BPD and its subsidiaries Snia Fibre, Sorin Biomedica and Caffaro, all of which are quoted companies, although Fiat may reduce its stake in the sector, while remaining the largest shareholder.

Andrew Hill and John Griffiths

Moulinex workers march for 'dead town day'

It was the day the full meaning of France's gloomy unemployment figures finally sank in for the 6,000 people of Mamers.

They marched en masse yesterday through the shuttered streets of their tranquil Norman town, 180km west of Paris, in silent protest at plans by Moulinex, the household appliances group, to close the factory that is the mainstay of the local economy.

According to one official, the plant accounts for 37 per cent of the town's professional tax receipts.

It was an effective and dignified way to draw attention to the downside of the efficiency drive that is in full swing across broad swathes of French commerce and industry, as managers restructure in the face of tough worldwide competition.

Yesterday's so-called "dead town day" at Mamers came just over a week after Mr Pierre Blayau, Moulinex chairman, unveiled plans to cut more than 20 per cent of the company's workforce, in a move described on the front page of Le Monde as an "electric shock" for the 60-year-old group, which has several plants in the region.

A tired-looking Mr Blayau spoke of the danger of Moulinex being bought by a foreign rival and of the need to bring the group's business performance to "a level equal that of its main competitors". He suggested the manufacture of products earmarked for developing markets would be transferred overseas.

This was a point picked up by yesterday's marchers as they filed from the 30-year-old Moulinex factory, with its incongruous medicine-pink logo, to a mid-morning rally, complete with balloons, church bells and air-raid sirens, in Place de la République. "No to Mexico, Yes to Mamers" said their banners. "Mamers must not die."

The factory's 411 employees at the head of the procession, many in blue overalls, wore numbers on their chests, like marathon runners. A large proportion were at the age, in their 40s and 50s, where finding new jobs would be particularly difficult, and had clocked up long years of service.

"Thirty-three years," said employee number 204 when asked how long she had worked for Moulinex. "I work on motors," she added.

In a possible sign of things to come, the procession left behind a silent and deserted factory. White-handled irons were visible through the window on stationary conveyor belts. A single blue Moulinex lorry stood near the delivery bay.

In a shrewd public relations move, the march was led by Fanny and Julien, both nine years old. They carried two simple banners. "My mum and dad don't have a factory any more," said one. "Thank you, Mr Blayau," said the other.

Mamers' small businessmen and women were also out in force. A sign in the window of Mr Pierre Colette's bric à brac and antiques shop spoke of his profound sadness and shock at what was threatened and said he would be on the streets all day.

The marchers have other, more powerful allies. Mr François Fillon, minister of post and telecommunications and chairman of the general council of Sarthe, the *département* where Mamers is located, has called on the labour ministry to turn down the closure proposals.

Mr Franck Borotra, industry minister, has said they are "not acceptable in their present form".

But the industry ministry later acknowledged it could do little more than work at the margins of the plan to shed 2,600 workers.

There was also a trace of resignation in the response from Mr Michel Corbin, mayor of Mamers, when asked if he hoped to keep the plant open.

"I am not completely convinced that all is completely lost," he said. "That means we must fight, step after step, stage by stage."

David Owen

Unlucky numbers: staff display the number of years they had worked for Moulinex as they march through Mamers Reuter

Telecom Eireann finds partners

By John Murray Brown in Dublin

A consortium linking Koninklijke PTT Nederland, the privatised Dutch telecoms company, with Telia of Sweden has been selected as the strategic partner for a 35 per cent stake in Telecom Eireann, Ireland's state-owned telecommunications company.

The KPN-Telia consortium will pay an initial I£183m ($115.7m) for a 20 per cent stake in TE.

Mr Michael Lowry, Ireland's minister for transport, energy and communications, said the total proceeds would exceed I£500m under a complex agreement, under which the consortium will pay an additional I£300m over the next three years as it exercises options on the remaining 15 per cent. KPN-Telia will make further payments under a profit-sharing arrangement based on the future earnings of TE.

The sale, on which the government was advised by Morgan Stanley, the US bankers, was prompted by the need for TE to position itself ahead of the deregulation of the European telecoms market in line with Commission directives.

Ireland won a two-year delay, or derogation, in the EU timetable, together with Greece, allowing it to maintain protective barriers to competitive telephony until 2000.

The provision of mobile and other niche markets is already open to competition. Ireland has Europe's third most advanced digital network, but the decision to seek a derogation was prompted more for political reasons.

About 40 companies were invited to make bids when the deal was first envisaged five years ago. KPN-Telia made a lower bid than Tele Danmark, the Danish state telecom company. Cable and Wireless, of the UK, had earlier offered I£460m for a 40 per cent stake. AT&T, the US company, and British Telecommunications had both earlier withdrawn from the bidding.

Rebutting criticism that the deal was much less than had been originally envisaged, Mr Lowry said that I£220m of the proceeds would be funnelled back into the company, to allow TE to restructure its balance sheet, where debt is running at around I£860m.

The balance will help to reduce the government's liabilities in respect of its pension contributions, which are currently around I£700m.

"The structure of this deal allows us to align the strategic and financial interests of the state, the company and the strategic partner," Mr Lowry said.

Mr Lowry said it was a milestone agreement. The government has indicated this is a one-off sale. Nonetheless, KPN-Telia will want the authorities to clarify the nature of competition, together with future intentions for the remaining 65 per cent stake, as well as the question of how the pension liabilities are to be funded.

The deal was strongly criticised by opposition politicians yesterday. However, Mr David Begg, head of the communications union, welcomed the choice of partners.

Solvay plans $170m expansion for US plant

By Jenny Luesby

Solvay, the Belgian chemicals company, has unveiled a $170m investment plan for its soda ash plant in Wyoming, driven by the strength of the glass market in Latin America and Asia.

The company said it planned to expand the plant in three phases, beginning next April. The pace of the expansion will depend on demand, but capacity will eventually rise to 3.2m tonnes, from 2.1m tonnes currently.

Solvay's 20 per cent partner in the Wyoming plant, Asahi Glass of Japan, will take one-fifth of the expanded output. Most of the remainder will be exported to glass producers in South America and Asia. The glass market is growing at 4 per cent a year in South America and 7 per cent in Asia, Solvay said.

Solvay is the world's largest producer of soda ash, and accounts for 60 per cent of European capacity.

NEWS DIGEST

Polish telecoms group raises loan

Netia Telekom, Poland's sole private telephone operator, has raised a $180m loan from a foreign banking consortium led by the European Bank for Reconstruction and Development and ABN Amro of the Netherlands, for the construction of 350,000 lines over the next three years.

The 10-year facility, signed yesterday in Warsaw, is the EBRD's largest telecommunications loan to date. It opens the way for Netia – a joint venture between RP Telekom, a Polish telecoms operator, Telia, the Swedish state-owned operator, and the EBRD – to press on with plans to install the lines at a cost of $350m. The remaining financing is to be provided by the company as well as supplier credits. Netia has installed 13,000 local lines.

Under Poland's present telecommunications regime, local connections are open to competition while regional and international connections are controlled by Telekomunikacja Polska SA, which operates 5.8m land lines.

RP Telekom is jointly owned by local investors and foreign partners which include Dankner Investment, of Israel, and Goldman Sachs, of the US. *Christopher Bobinski, Warsaw*

Audi accelerates to DM206m

Audi, the German carmaker and subsidiary of Volkswagen, yesterday posted pre-tax profit of DM206m ($134.4m) for the first quarter, up from DM95m a year earlier. The company said it expected full-year pre-tax profit to be "at least as high as last year". In 1995, Audi reported pre-tax profits of DM589m for the full year.

Car production in the first quarter grew 18.6 per cent to 120,110, while worldwide customer deliveries rose 6.3 per cent to 116,651 during the period, from 109,698 a year earlier, Audi said.

However, a breakdown of deliveries showed a different picture, Audi noted. In Germany, deliveries fell 3.6 per cent to 52,290 in the first quarter, from 54,251. The decline was due to the unusually high number of deliveries during the period last year, it said. German market share fell from 6.5 per cent to 5.7 per cent during the period.

In western Europe, excluding Germany, Audi deliveries rose 15.7 per cent to 45,498 in the first three months of 1996 from 39,313 a year earlier. Deliveries in the US rose 38.4 per cent to 5,776, from 4,173 units, Audi said. In the rest of the world, deliveries gained 9.4 per cent to 13,087 cars from 11,961. *Agencies, Neckarsulm, Germany*

CSM in Swedish buy

CSM, the Dutch-based branded consumer products group, yesterday agreed to acquire Malaco, a Swedish manufacturer of sweets, from Kraft Freia Marabou, the Scandinavian group which is a division of Kraft Foods, of the US. The purchase price was not disclosed. Malaco, which had sales of SKr868m ($130.6m) in 1995, will become part of the CSM food division as an operationally independent unit. The acquisition will be official within four months. *Agencies, Amsterdam*

Setback for German builder

Wayss & Freytag, the German building and construction group, said output in the first five months of the year totalled DM1bn ($652m), or 3 per cent less than a year earlier. New orders in the period climbed 7 per cent from a year earlier to DM1.16bn, with domestic orders up 8 per cent at DM1.05bn. Unfilled orders rose 4 per cent from the end of last year to DM3.8bn at the end of May, with domestic orders up 6 per cent at DM2.66bn, the group said. Wayss & Freytag had a 1995 net profit of DM24.6m. *AFX News, Frankfurt*

NEWS DIGEST

Pactel, SBC to pay for probe into link

Pactel and SBC Communications, the US "Baby Bell" telecoms companies planning to merge into a group with total sales of $24bn, are to foot the bill for a statutory probe into the deal's implications for consumers. The $150,000 donation was intended to speed up regulatory proceedings by the Californian Public Utilities Commission, which is currently overrun with investigations and hobbled by a lack of state funds, the companies said.

Urgency was called for because of a clause in the merger contract which allowed either prospective partner to cancel if the deal were not closed by the end of March next year. The PUC process, considered the biggest hurdle the companies must overcome, had previously been shelved indefinitely because annual budget cuts of 5 per cent over the past few years had left the bureaucracy unable to cope, officials said. A rush of work, prompted by last year's deregulation of the US telecoms industry and a rash of deals involving media, telecoms and entertainment companies, had drained resources.

The companies' contribution pre-empts a clause in the Californian budget for 1996-97 which is intended to force merger candidates to pay all the costs of regulatory investigations, starting in July. If enforced, this could add at least $1m to transaction costs, observers said. While the funds have at least allowed the probe to start, the PUC's consumer rights division is famed more for its meticulous approach than for speed. *Christopher Parkes, Los Angeles*

Apple shares slide to all-time low

Shares of Apple Computer fell to an all-time low yesterday, trading at $19⅞ in mid-session amid investor concerns about its declining share of the personal computer market. Apple went public in May 1984, when its shares traded at around $28. The stock has fallen below $20 only once before, in December 1985, but this was before a two-for-one stock split in June 1987.

Yesterday's dip below $20, a 3 per cent fall from Tuesday's close of $20⅝, signaled sinking confidence in the ability of Apple's new management to restore the company quickly to profitability, analysts said. *Louise Kehoe, San Francisco*

Placer Dome targets costly mine

Placer Dome has announced a "major renewal plan" aimed at improving the economics of its high-cost Sigma gold mine in Val d'Or, Quebec. The plan means cutting about 100 jobs at the mine, from 325.

Placer Dome said Sigma, which had an average cash production cost of US$488 an ounce of gold in the first quarter, had been striving for profitability since a rock slide in June 1995 limited access to its primary ore zone. Studies have since shown that accelerated development of alternative gold veins will not compensate for the shortfall. The average cash production cost rose to $550 an ounce in May, "necessitating action to stem losses in the short term", the company said. *AP-DJ, Vancouver*

Molson delays release of results

Molson, the Canadian brewer and retailer, has delayed release of its fourth-quarter and fiscal 1996 (to March 31) audited results until the second half of July because of the effects of its C$1.1bn (US$805.3m) sale of subsidiary Diversey's special chemicals assets. Molson has already sold C$893m of Diversey assets. The last Diversey unit on the shelf may fetch about C$200m. Molson is expected to incur a loss for the year after special charges.

Meanwhile, Molson has named Mr Norman Seagram, 62, to replace Mr Marshall Cohen as president and chief executive. *Robert Gibbens, Montreal*

Tenneco buys Amoco packaging business

By Laurie Morse in Chicago

Tenneco Packaging is to buy Amoco Foam Products Company, a unit of Amoco Chemical, for $310m, in a deal that will expand its line of speciality containers.

Amoco Foam Products, based in Smyrna, Georgia, manufactures polystyrene cups, plates, and trays as well as hinged-lid food containers, packaging trays for meat and poultry, and industrial foams for residential and commercial construction applications. The company had 1995 sales of $288m.

The purchase will carry Tenneco's polystyrene container applications into food processor and restaurant business lines. Last year, Tenneco paid $1.3bn for Mobil Plastics, which manufactures consumer plastics such as Hefty rubbish bags and Baggies sandwich bags. Tenneco already makes polystyrene tableware for retail sale under the Hefty brand name.

The Amoco Foam purchase comes just a week after Tenneco announced the sale of its Tenneco Energy unit to El Paso Energy. The disposal was part of plans to redeploy capital into two main businesses: specialty packaging and automotive components.

"This is the kind of acquisition which meets our criteria perfectly. It is in one of our core strategic businesses – specialty packaging; it will be accretive to earnings from the start; it exceeds our goal of a 15 per cent return; and it offers synergy and opportunities for value creation," said Mr Dana Mead, Tenneco chairman.

"Our strategy is focused upon redeploying cash from businesses such as energy, with at best a 9–10 per cent return and a highly uncertain regulatory environment, to businesses where we can meet our earnings goals and rely on the competitive forces of the market," Mr Mead said.

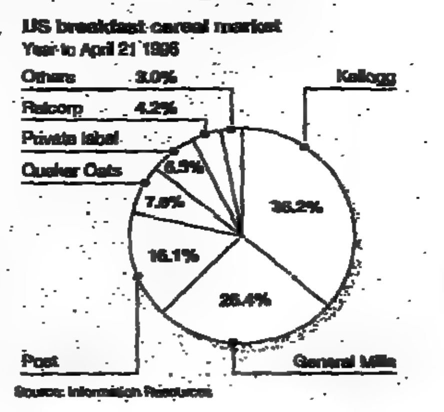
Tenneco Packaging is the fourth-largest packaging company in the US, and eighth-largest in the world. Amoco Foam Products employs 1,600 people at nine manufacturing centres, all in the US.

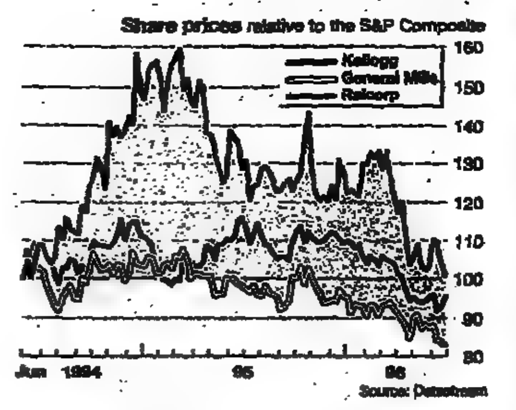
Pullman bid, Page 21

Crunch time for US cereal makers

Consumers are tired of overpriced cornflakes, writes **Richard Tomkins**

Price war begins to bite





If you want to make an American shopper apoplectic, just mention the cost of cornflakes. The usual response is a tirade against the prices charged by the big breakfast cereal manufacturers.

Yet munchers of Cocoa Krispies, Grape Nuts and Spoon Size Shredded Wheat are finding themselves with less to complain about following the outbreak of a price war in the US cereal market. In the last few weeks, each of the three biggest cereal companies – Kellogg, General Mills and Philip Morris's Post subsidiary – have slashed prices in an attempt to win back fading consumer enthusiasm for their products.

The price-cutting bears the hallmarks of a similar episode in the US tobacco industry that started with Marlboro Friday – the day in 1993 when Philip Morris cut the prices of its premium cigarette brands to regain market share.

Analysts say the big cereal manufacturers, like the big tobacco companies three years ago, are guilty of sheer greed. Over a period of many years, they have pushed up prices in the belief that consumers will go on buying their products on the strength of their brands.

The result of this policy is that branded cereals have become extraordinarily expensive in US stores. In a London branch of the J. Sainsbury supermarket chain last week, a 500g box of Kellogg's Corn Flakes was selling for £1.06, or $1.63 at current exchange rates. In New York, a 510g box of the same product was selling for $3.39 in a branch of the D'Agostino supermarket chain – at more than double the UK price per gram.

Significantly, not everyone pays such high prices. In an attempt to stimulate demand, cereal companies typically distribute billions of money-off coupons a year, enabling the thrifty to buy their favourite cereal at a discount.

The strategy, however, has failed. Infuriated by the high prices and constant couponclipping, US consumers have started turning away from cereals, either skipping breakfast or switching to alternatives such as muffins or bagels. In the year to April 22, US cereal sales fell 3.7 per cent to $7.85bn, according to Information Resources, a Chicago-based market research group.

Meanwhile, those consumers who still need their daily fix of flakes are saving money by buying private-label products instead of branded goods. Defying the shrinking market, private-label sales rose 9.1 per cent to $514m in the year to April 21, says Information Resources – hardly surprising when a box of private-label cornflakes can cost half the price of the Kellogg product.

Two years ago, General Mills became the first big cereal company to respond to weakening demand when it announced it was reducing couponing and cutting the cost of its biggest-selling products by an average of 11 per cent.

Now, faced with declining sales, all the big cereal makers are cutting prices. In April, Post announced it was reducing list prices by 20 per cent across its range of Post and Nabisco products; earlier this month, Kellogg followed by cutting prices by an average of 19 per cent across two-thirds of its US cereal sales; and last week General Mills, not to be outdone, announced it was cutting prices by another 11 per cent on brands accounting for 42 per cent of sales.

The manufacturers' apparent objective is to fight off the challenge from private-label products and restore growth to the cereal sector as a whole. "We believe the long-term benefits of these actions far outweigh their costs," said Mr Stephen Sanger, chairman and chief executive of General Mills.

Yet the price war is hurting the participants. Kellogg said its earnings would dive from 77 cents to 45 cents a share in the second quarter to June, and that its earnings for the full year would be no higher than last year's. General Mills said the cuts would cut earnings by $30m–$35m, or about 20 cents a share, in its fiscal year ending May 1997.

Another victim is Ralcorp, a manufacturer of private-label cereals, which stands to lose some of the market share it has won. Last week it announced plans to cut jobs and production at one of its plants, and said it would take an undisclosed charge in the quarter to June.

No-one knows where the price war will end, but the size of the price premium still being charged by the big manufacturers suggests there could be more cuts to come. One Wall Street analyst, Mr Mark Altherr at Salomon Brothers, thinks one or more companies may even disappear before the war is over.

"There are basically too many cereal producers out there, and it may be that the end game in all of this is to get rid of somebody."

General Mills profit ahead 28% for year

By Richard Tomkins in New York

A big rise in breakfast cereal sales helped General Mills, the US food company, report a 28 per cent increase in underlying net profits to $476m for its year to May 26. Earnings per share rose 28 per cent to $3, the company said yesterday.

The figures were in line with predictions by General Mills last week, when it announced that it was introducing a second round of price cuts in its breakfast cereals, following a first round two years ago.

General Mills also reiterated last week's warning that the latest price cuts would hit profits in the current year, reducing net income by $30m–$35m, or about 20 cents a share. Between 50 and 75 per cent of the impact would come in the first quarter, it said.

Last year's fourth quarter was the strongest of the year, General Mills said, with net losses of $13.3m the previous year turning into net profits of $77.5m.

Excluding restructuring charges in the previous year, earnings per share rose from 10 cents to 49 cents.

The profits growth was driven by a 13 per cent increase in sales to $1.38bn, with unit volume up more than 11 per cent.

For the full year, General Mills said its Big G cereals business led the company's performance. Sales and unit volume both rose by nearly 10 per cent, and its share of the market by volume rose 1.3 percentage points following the price cuts of the year before.

St George fails to win support for merger

By Nikki Tait in Sydney

St George Bank, the Australian regional bank, is "considering its options" after shareholders in Brisbane-based Metway Bank failed to provide enough support for its A$820m (US$649m) merger proposal to go through.

But the Sydney-based bank's failure yesterday to secure the deal appears to open the way for the Queensland state government to proceed with a rival scheme involving a merger between Metway, the state-owned Suncorp insurance business and the Queensland Industry Development Corporation.

This would create a regional "superbank", with assets of about A$21bn, ranking as Australia's fifth-largest banking group.

St George had sought to implement its merger plan via a scheme of arrangement, and needed 75 per cent of shareholders in all three classes of shares to be in favour.

A majority of ordinary shareholders backed the scheme, but short of the required level. One class of preference shareholders were in favour, and one against.

The outcome followed a day of drama in Brisbane, during which the Queensland state government suddenly increased its own offer terms for Metway while vociferous shareholder meetings to consider the St George deal were under way.

It said it would offer A$4.80 a share for Metway, compared with A$4.65 previously. This topped the St George offer, which had been increased to A$4.77, although the Queensland government's cash would not be available so quickly.

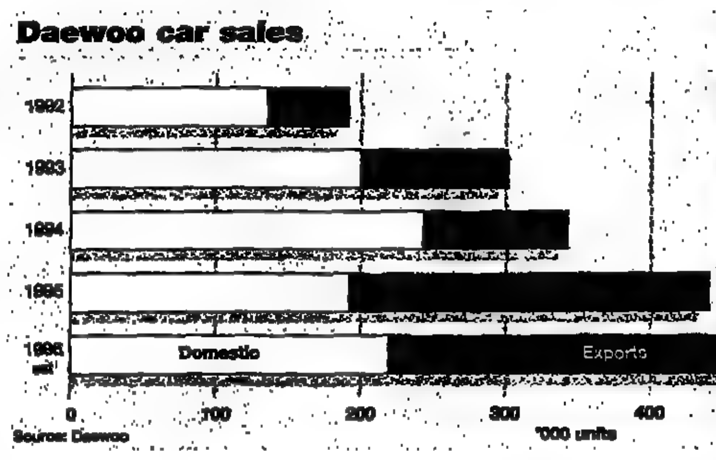
Metway directors, who had been supporting the St George offer, quickly recommended the new offer instead.

Last night, St George indicated that potential avenues which it might explore included a legal challenge or a "normal" takeover bid. However, Metway's chairman played down the likelihood of the former succeeding, and analysts believed that St George had been stretched to make its A$4.77 a share offer in the first place.

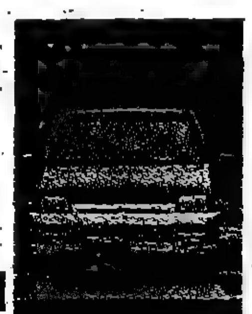
If the Metway merger is no longer possible, St George itself is likely to become a focus of bid speculation again.

Daewoo Motor on ambitious new course

The Korean group aims to become one of the world's top 10 car manufacturers



Source: Daewoo


Tico

In a bleak waterside spot about 200km south of Seoul, Daewoo Motor, the automotive arm of South Korea's fourth-largest industrial group, is building the mother of all car plants.

The new facility at Kunsan is the company's ticket to "Vision 2000" – its plan to become one of the world's top 10 carmakers. When completed early next century, the halls peppering the site, largely reclaimed from the sea, should be churning out more than 1m cars and trucks a year.

Already, the high-tech buildings constructed for the first phase to build 300,000 cars and 20,000 heavy trucks a year contrast sharply with the desolate landscape. If and when the next two stages are built, raising output to 900,000 cars and about 120,000 trucks a year, the contrast will become more stark.

The uneasy marriage of man and nature at Kunsan is emblematic of the broader contradictions within Daewoo. While the company, personified by its charismatic founder Mr Woo-Choong Kim, trumpets ambitions to climb new peaks, critics claim its products and performance are distinctly leaden-footed.

Daewoo has hit the headlines less for Kunsan, which has only just started pilot production of passenger cars, than for its acquisitions abroad – mainly in eastern Europe and the former Soviet Union.

In the past two years, it has bought a former state carmaker in Romania, the biggest state truck group in the Czech Republic, and founded a car plant in Uzbekistan. Acquisitiveness reached its zenith last February, when Mr Kim signed a deal to take over FSO, a Polish public-sector carmaker infamous for its unreliable and outdated Polonez models.

Mr Kim says the motley collection will be made competitive by building Daewoos. That should give the company a head-start in areas, such as eastern Europe, where car ownership is expected to surge.

Daewoo is already becoming a familiar name in its target markets. Not long before snatching FSO from the grasp of General Motors, which had been negotiating with Warsaw for more than four years, it purchased FSL, a commercial vehicles group, which is assembling Daewoo's Nexia hatchback alongside its truck range.

But the Nexia, in reality an outdated Opel from GM's German subsidiary, typifies the contradictions between Daewoo's ambitions and its current standing. All the company's cars are based on products from other manufacturers. The Nexia and the Espero are reskinned Opels, the Tico minicar comes courtesy of Suzuki, and the executive Arcadia is a rebadged, previous-generation, Honda Legend.

Such generally low-cost, low-tech models could be ideal for regions such as eastern Europe or India, where most customers want uncomplicated, affordable cars, rather than all the frills. Confusingly, however, Mr Kim also wants to make Daewoo's name in western Europe and the US. The company hopes to sell 100,000 cars in western Europe this year and 150,000 in the US once established there.

Yet it is hard to see how Daewoo will fulfil its ambitions in view of the fact that demand for cheap and cheerful cars in both regions is limited.

Mr Ulrich Bez, the former BMW and Porsche executive who joined Daewoo almost three years ago, explains the apparent contradiction. "You must understand the difference between the present cars and those of the future," he says.

Mr Bez makes little effort to defend the current range. He focuses on the three new models under development – the first of which has just gone into production at Kunsan.

Codenamed J100, it is about the size of a Rover 400 and will come as a hatchback, notchback or station wagon. Below it in the range will be the T100, sized similarly to a Rover 200, while above will stand the V100 executive sedan.

All three look stylish and modern. Korean drivers will get their hands on the J100 towards the end of this year. Exports will start in early 1997, and Mr Bez hopes the entire range of current models will have been replaced worldwide within two years.

Further down the line, Daewoo will also launch a compact car below the T100, a multi-purpose "people carrier", and even an executive saloon in the Mercedes-Benz mould. Mr Kim says Daewoo will eventually sport 15 different models.

Mr Bez has assembled a strong team of engineers to achieve that aim. Many are former colleagues from Germany.

Mr Ginger Ostle, Daewoo's design guru, worked at Porsche before becoming Mazda's European design chief. Other ex-colleagues can be found at Daewoo's new engine development centre in Munich and its UK-based research and development centre in Worthing.

Mr Bez says no other company has managed to develop so many new cars so quickly from scratch. The speed has come partly by using outside consultants. Work has been sub-contracted to Lotus, the UK engineering specialist, and Austria's SFT.

But even such outside help may not be enough to keep pace with Mr Kim's ambitions. This year Daewoo tried to buy Lotus and part of SFT's parent company to reinforce its engineering resources.

Inexplicably, Daewoo pulled out of the Austrian deal and suffered an eleventh hour rebuff from Lotus's owner. Mr Bez says Daewoo can fend for itself without them. But the company's surprise about-turn in Austria and rejection at Lotus have only added to the contradictions in its strategy.

Haig Simonian

Premier gets go-ahead for R800m rights issue

By Mark Ashurst in Johannesburg

Premier Group, the troubled South African food, pharmaceuticals and retail conglomerate, has secured the agreement of its principal shareholders for a long-awaited rights offer which will be used to reduce its debt of R966.7m ($222m).

Mr Doug Band, chairman, denied analysts' reports that Liberty Life, the insurer, Johnnies Industrial Corporation, the industrial holdings group, and Anglo American Corporation had stalled Premier's plan for a R800m rights issue.

Details of the issue would be announced within weeks, he said. "We want the money in the bank by the beginning of the next financial year."

At April 30, Premier's overall debt-to-equity ratio was 32.4 per cent. The cash would be used to recapitalise its mainstay subsidiary, Premier Foods, which has suffered during the group's diversification into other retail sectors.

Premier posted a twenty-fold increase in net income to R553m for the year ended April 30, compared with R27.9m for the same period last year, due largely to exceptional income from disposals.

Earnings per share rose 19 per cent, from 25.2 cents to 30 cents. The final dividend goes up from 10.5 cent to 12.5 cents.

The group received R295.6m from the sale in January of Clicks, its 159-store retail chain, to Malbak, the South African consumer goods group. It also sold its head office in Johannesburg for a profit of R28m and gained a further R53m from other disposals.

But while the disposals reduced gearing, interest charges increased from R105m to R134m.

Trading profit for the period was up 23 per cent to R776.3m, against R630.2m, and the overall tax burden increased from R134.6m to R217.7m.

Analysts said the group's recovery would depend on its penetration of the added-value food market, which could require further disposals to fund new production lines.

NEWS DIGEST

Dickson Concepts ahead 19% for year

Dickson Concepts, the Hong Kong-based luxury wholesaler and retailer, yesterday reported a 19 per cent increase in net profits to HK$395.5m (US$51.1m) for the year ended March 31, against HK$332.19m the previous year. Dickson said all subsidiaries were operating profitably, including China, which is expected to make significant contributions once economic conditions there improve. Earnings per share rose 19.5 per cent, from 48.7 cents to 58.2 cents. Shareholders are to receive a final dividend of 21 cents, giving a total for the year of 33 cents, up 17.8 per cent on the previous year's 28 cents, and the directors are proposing a 1-for-5 bonus issue.

Louise Lucas, Hong Kong

BHP divests North Sea holding

The steady divestment of "non-core" energy assets by BHP Petroleum, part of the Australian resources group, continued yesterday. The unit announced it was selling its 12.43 per cent stake in the Mungo and Monan oil and gas fields in the North Sea to Total Oil Marine, part of the French Total group. The fields form part of the Eastern Trough project.

No sale price was announced, although the Australian company said it expected to show a profit over book value on the deal. The divestment follows BHP's sale of assets in the Dutch sector of the North Sea to SHV Energy earlier this month, and of some North American producing assets.

Nikki Tait, Sydney

Kim Eng slides to S$35.6m

Kim Eng Holdings, the Singapore-based broker, saw net profit fall 19 per cent to S$35.6m (US$25.2m) for the year ended March 31. The company said its performance reflected the market conditions in Singapore, Malaysia and Hong Kong, adding that it was able to stay profitable despite the low volumes of shares transacted. It added that it expected market conditions to remain difficult. Revenues declined from S$131.7m to S$112.0m. The dividend was pegged at 2 cents.

AP-DJ, Singapore

First Capital to raise S$200m

Shareholders in First Capital Corporation, the Singapore property group, have agreed to the creation of 200m cumulative preference shares at an issue price of S$1.00 each. The issue is designed to raise S$200m (US$142m) to refinance the company's redeemable preference shares and be used for working capital. FCC said the new shares would pay an interest rate of 5.00 per cent and be redeemable in 1999.

Reuter, Singapore

Mayne Nickless sells UK unit

Mayne Nickless, the Australian transportation, security and healthcare group, is selling its Security Express Armaguard business in the UK to Sweden's Securitas group. The sale price is A$8m (US$6.3m), with up to a further A$15m due if the business returns to the black before the end of 1997. The move completes Mayne's exit from its European security interests.

Nikki Tait

Ashok Leyland posts 60% rise

Ashok Leyland, the Indian truck manufacturer, yesterday posted a net profit of Rs1.13bn ($32.4m) for the latest year ended March 31, up 60 per cent from Rs705.9m last time. Revenues jumped to Rs20.1bn, up from Rs15.1bn. Pre-tax profit for the latest year rose 69 per cent to Rs1.34bn. *AP-DJ, Bombay*

Costain in talks as shares suspended

By Andrew Taylor, Construction Correspondent

Costain is having talks with a potential south-east Asian investor considering purchasing a large stake in the UK construction group.

The British company which has asked the stock exchange permission to extend the deadline for publishing its annual results pending "significant corporate developments" yesterday called for its shares to be suspended after they fell 31p to 39p.

The price fall reflected market concerns that the delay in publishing results might mean further bad news following two separate profits warnings by Costain earlier this year.

The significant developments referred to by the company, however, are understood to relate to the possibility of a large stake being sold to a south east Asian company and to negotiations over the sale of Costain's remaining US coal interests which are also thought to be at an advanced stage.

The deals, if they come off, would together wipe out Costain's remaining debt, leaving the company with a modest cash surplus.

It would leave Costain, which ran into serious difficulties in the early and mid 1990s, in its strongest financial position for years. Collaboration with a south east Asian investor also could provide further work opportunities in the region's expanding construction market. The sale of a large a stake, thought to be less than 50 per cent, would involve Costain in issuing a large amount of new equity which would require shareholder approval.

It was not clear yesterday how the British group's major shareholders, including two Middle eastern construction companies, each with a stake of just over 19 per cent, would react to the proposals.

Costain which regards south east Asia as one of its most important markets has kept its major shareholders informed of the negotiations.

Analysts have estimated that the sale of Costain's US coal business could raise about £50m ($76.5m). An announcement of the two deals would mitigate the impact of the company's annual results which are expected to show pre-tax losses in the region of £40m.

The construction group would not comment last night on speculation about share issues or the sale of its coal business only adding that it expected "to be able to make an announcement concerning these results and other significant corporate developments shortly."

Colin Beere

Lord Douro, deputy chairman (left) with Joseph Kanoui: described year as 'satisfactory'

Danka shares fall after first quarter estimates

By Geoff Dyer

Shares in Danka Business Systems fell 28 per cent yesterday after the acquisitive office equipment supplier released estimates for first quarter profits which were below some analysts' forecasts.

The shares, which have risen tenfold in the last four years, fell 195p to 490p after the Florida-based group said that profits in the first quarter of this financial year would be £21m-£22m ($32.1m-$33.7m).

Mr Mark Vaughan-Lee said the group had increased its North American sales staff by 10 per cent in the last two months, which meant that the group would face a period of higher costs while the new staff were being trained.

"We had not anticipated that our businesses would hire the new staff at such a fast rate," he said.

First half profits would also be held back, he said, by the cost of reorganising the US business into a regional structure, which would lead to the temporary duplication of some jobs.

The announcement produced a mixed response from analysts. In the US, where most of the shares are traded, analysts reduced their forecasts for annual profits by around 20 per cent.

Panmure Gordon, the group's house broker, provisionally reduced its forecast for full year profits from £79m to £72.5m and some analysts said it was inevitable that Danka's large number of acquisitions would lead to management problems.

However, Mr Richard Harwood at brokers Collins Stewart left his forecast unchanged at £83m, on the grounds that he had expected the group's expansion plans to lead to some one-off costs.

"The shares had been trading at a multiple of 30 which made them look a bit overblown," he said.

As a result of yesterday's correction the shares are on a forward p/e ratio of about 20.

The rise in Danka's shares, which were at 49p in September 1992, has been fuelled by acquisition-led growth, which included 50 separate purchases last year. The group has also been expanding it sales and marketing staff to help introduce the new digital colour copiers to its clients.

Mayflower pulls out of US counter-bid

By John Griffiths

Mayflower, the UK engineering group, said yesterday it had decided not to pursue a counter-bid against Tenneco, the US industrial conglomerate, for American motor components group Pullman.

Mayflower's announcement came a few hours after Tenneco's Monroe Auto Equipment subsidiary had agreed to increase its bid for Pullman to $323m (£214.3m) - some $62m more than the original offer made by Mayflower two weeks ago.

The final deal was struck after Pullman agreed to delete provisions of the original merger agreement allowing it to terminate the transaction if it received superior proposals.

It was expected that Mayflower's chief executive, Mr John Simpson, would have insisted on a similar clause if the British company had decided to increase its own bid.

Mayflower was disappointed, but said it would continue to examine other potential acquisitions as part of its strategy to develop into a global automotive engineering concern.

Under its original agreement with Pullman, Mayflower will be reimbursed the $3.5m costs it incurred in preparing its offer for the US components group. Pullman said its shareholders would receive about $16 for each share held, up from $13.50, after giving effect to the retirement of Pullman's outstanding debt, fee payment and other obligations.

The exact price will be determined on the closing date based on the amount of bank debt outstanding at the time.

Vendome profits hit by exceptional world events

By David Blackwell

Higher taxes, lower interest income and exchange rate pressures dented last year's outcome at Vendome Luxury Group, the holding company that owns brands such as Cartier, Dunhill and Montblanc.

The group, 70 per cent-owned by Richemont, also blamed exceptional world events, partly in its key trading period in the run-up to Christmas.

These events included terrorism in Europe and Japan, social unrest in France, the reduction in the number of Pacific rim tourists to Europe following the French nuclear tests, and the Japanese earthquake, which knocked out two of its shops.

Pre-tax profits for the year to March 31 fell from SwFr482.8m to SwFr471.6m. Sales edged ahead to SwFr2.68bn from SwFr2.65bn.

However, in sterling terms pre-tax profits were almost 9 per cent higher at £257.7m ($394.3m) and sales 18 per cent up at £1.47bn.

Mr Joseph Kanoui, chairman, described the year as "satisfactory" considering the strength of the Swiss franc. The currency now appeared to have stabilised, and if the trend were to continue this year's results would show earnings growth.

The net cash pile was almost unchanged at SwFr887.2m, but net interest income fell from SwFr29.2m to SwFr16.7m as Swiss interest rates declined from 4 to 1.5 per cent.

The tax rate, low in 1993-94 and 1994-95 following changes to Swiss tax law, moved up sharply to near the expected normal rate of 27 per cent.

Earnings fell 10 per cent to SwFr 0.506p per unit. In sterling terms a final dividend of 6.63p is proposed, giving a total for the year of 10.24p, a rise of 9 per cent.

Laporte makes Australasian disposals

By Simon Kuper

Laporte, the UK's fourth largest chemicals company, took the first big step in its disposal programme yesterday by selling most of its Australasian businesses for A$57m (£29.5m).

The bulk of the operations were bought by Fernz Corporation, a New Zealand quoted company. Fernz said yesterday it would also buy Akzo Nobel's crop protection chemicals business for NZ$30m.

The businesses being sold made operating profits of A$5.4m on sales of A$136m last year. Mr Jim Leng, chief executive, said Laporte planned to dispose of further non-core businesses with total sales at least that high. He has said his programme would add £10m to profits by reducing costs, and put Laporte on a path towards double-digit profit growth.

"In December we decided there was at least 10 per cent of the group that didn't fit. To show how fragmented our operations were in Australia: we had 11 operating units there," he said. Laporte last year tried but failed to float the businesses on the Sydney stock market. It said the Australian chemicals market was slow.

The disposals will result in a goodwill write-off of about A$38m, to count against 1996 pre-tax profits. However, analysts left their profit forecasts unchanged at £120m. The group has made restructuring provisions of £88.7m.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Angle St James	Yr to Dec 31	0.795	(2.81)	0.065	(0.054♠)	0.39	(0.04)	nil	-	nil	nil	nil
Arcolo Intl Res ♣	6 mths to Feb 29	0.746	(0.707)	0.145L	(0.064L)	0.0.05L	(0.11L)	-	-	-	-	-
AromaScan §	Yr to Apr 30	2.96	(1.18)	1.68L	(1.8L)	6.27L	(6.34L)	-	-	-	-	-
British Biotech	Yr to Apr 30	3.48	(3.19)	25.14	(26.33)	49.5†	(54.8)	-	-	-	-	-
Christie	Yr to Mar 31	16.9	(15.6)	0.06	(0.622L)	0.25	(2.68L)	-	-	-	-	-
Harvey Nichols □	Yr to Mar 30	90.2	(77.5)	9.16	(5.97)	10.6	(9.3)	-	-	-	-	-
Hill Hire	Yr to Mar 31	19.1	(10.2)	3.5	(2)	10.7†	(7.45)	2.45	Aug 1	1.12	3.69	1.12
Hogg Robinson	Yr to Mar 31	257	(198)	28.3	(14.3)	20.63	(11.82)	5.45	Aug 9	4.65	8.75	7.5
Lovell (Y.J)	6 mths to Mar 31	129.7	(138.2)	7.76L♠	(0.668)	21L	(0.2)	nil	-	nil	nil	nil
Lowndes Lambert	Yr to Mar 31	78.3	(74.2)	14♠	(15.3)	16.3†	(17.9)	5.5	Oct 2	5.5	8.4	8.25
N'thumbrian Fine Foods	Yr to Mar 31	28.1	(25.7)	1.19♥	(0.005)	1.88	(1.36)	0.1	Oct 1	nil	0.1	nil
Nursing Home Props	6 mths to Mar 31	1.12	(0.126)	0.268	(0.190L)	1.23	(14.49L)	1.2	July 25	-	-	0.8
Scott Pickford §	Yr to Mar 31		( )	0.417	(0.538)	2.61	(4.62)	1	Sep 6	[illegible]	1	0.9
Toyoel Life Sci§	6 mths to Mar 31	0.140	(0.060)	0.499L	(0.690L)	2.1L	(3.7L)	-	-	-	-	-
TBI	Yr to Mar 31	44	(38.6)	2.21	(1.78)	8.8	(7.9)	2.2	Aug 23	1.85	3.2	2.7
Vendome Luxury	Yr to Mar 31	1,467	(1,300)	257.7	(236.7)	27.7	(27.7)	6.63	Sep 19	6.47	10.24	9.37
Wilshaw	Yr to Mar 31	52.6	(46)	5.12	(5.09)	3.71†	(3.84)	0.65	Oct 2	0.5	0.85	0.75
Wintrust	Yr to Mar 31	-	(-)	3.12	(2.81)	19.99	(17.49)	8.5	Oct 1	7.7	12.52	11.35

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Murray Smaller Mkts	Yr to May 31	517.5	(445.2)	43.5	(16.3)	6.77	(6.75)	3.45	Sep 25	3.04	5.05	4.6
Turkey Trust	6 mths to Apr 30	284.78	(306.93)	0.180L	(0.021)	1.52L	(0.21)	nil	-	nil	-	2.2

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. §USM stock. ♣Irish currency. □Comparatives restated.

Tomkins uncertainty ended

By Ross Tieman

Shares in Tomkins rose 13p to 249p in relief yesterday after the industrial conglomerate received regulatory approvals for its long-awaited $1.37bn (£881m) acquisition of The Gates Corporation, the family-owned US manufacturer of power transmission belts.

The approvals will end 15-months of uncertainty over the future ownership of one of America's largest private businesses, employing 14,000 people. Analysts said the acquisition, the biggest by Tomkins since its 1992 purchase of food group Ranks Hovis McDougall, will also enhance Tomkins' earnings.

Mark Cusack, of broker UBS, said: "It gives them $1.8bn of relatively underperforming turnover to get right, together with growth opportunities, some of which are in non-OECD economies in Asia and Latin America."

Andrew Hollins, of broker Kleinwort Benson, said: "We see the deal as an attractive one for Tomkins, which will enhance earnings by two per cent this year and three per cent next year."

The Gates family invited bids for their company, which manufactures automotive and industrial drive belts and hoses, from would-be buyers in March last year. They wanted a new owner who could meet its growing investment needs. Tomkins beat off rival approaches from Tenneco, the Houston-based industrial group and Dana, the Ohio automotive parts group.

The Gates family will receive preference shares convertible into up to 226.7m Tomkins shares, giving them sway over 15 per cent of the enlarged equity. Mr Charles Gates, the president and chief executive of the US group, will become a non-executive director of Tomkins.

The conversion price of the two classes of preference shares issued to the family will be set at the higher of $20.469 or a 25 per cent premium to the average closing price of Tomkins American Depository Receipts in the 20 trading days from June 26 to July 24. The family will not sell more than 2m shares a year for the next two years.

Analysts said the higher the Tomkins share price, the greater the earnings enhancement the group would receive from the deal. "It gives them every incentive to get the share price up," said one.

Mr Gregory Hutchings, chief executive of Tomkins, said the deal had taken a long time because the Gates family planned to be long-term investors in Tomkins.

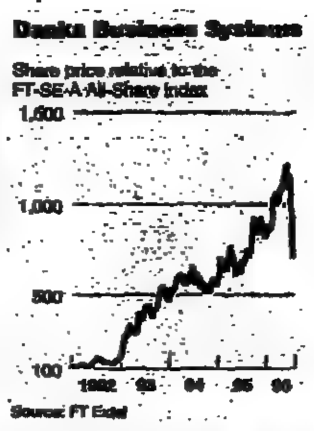
"Their management has been around our factories," he said. "They have done due diligence on ourselves and a couple of others."

Mr Hutchings said buying Gates would take Tomkins into the automotive industry through a strong business with great growth potential. It would also help Tomkins develop beyond the Anglo-Saxon economies.

"I have always been petrified to go into markets in Asia that I don't know," he said. "With Gates, we have bought management who know these areas." He said that with £280m of cash at its last year end in March, Tomkins had ample resources to exploit the new opportunities.

LEX COMMENT

Danka



Source: FT Extel

Yesterday's profits warning from Danka Business Systems, the photocopier distributor, has, at least temporarily, halted the dizzying climb of its share price. This looks like a much-needed correction: expectations among US investors, who hold three-quarters of the stock, had been unrealistically high. But even after a 28 per cent slide yesterday, it is still trading at 20 times this year's estimated earnings, way above the market average of 14 times.

This is justifiable only if the sudden slowdown in the company's explosive growth proves a hiccup rather than a step-change in its development. Danka claims the current setback in profits growth is the result of increased costs due to the rapid expansion of its sales force, which has yet to feed through into higher sales. In other words, the only mistake has been not phasing in the hirings more smoothly. But given the speed of its growth, and its reliance on multiple acquisitions, the worry is that the difficulty it now appears to be having in melding the result into a cogent whole could be at least a medium-term problem.

Still, the company's prospects certainly justify a premium rating. With a market share of just a few per cent in both Europe and the US, there is clearly room for further expansion. Margins, particularly in leasing, are juicy, and the competitive environment, both for acquisitions and for business, appears benign. While profits growth of around 30 per cent historically is expected to slow to around 20 per cent this year, even that is more than twice what most UK companies can manage.

Clyde Petroleum offers 'carrot' to speed up takeover

By Jane Martinson

Clyde Petroleum, the UK-based independent oil company, attempted to speed up its takeover of Crusader, an Australian energy group, and fend off further bids by offering more money to shareholders if they accept the deal tomorrow.

In what is considered an unusual move in a recommended bid in the UK, the company's Australian subsidiary announced that it would increase its offer from A$1.62 to A$1.67 per share if it held a controlling 50.1 per cent stake by the close of business tomorrow.

If the carrot is not accepted Clyde will drop the new offer. It currently holds 15.2 per cent of Crusader's issued shares.

The increased terms value Crusader at about A$178m (£92.2m), up from its previous bid of A$172.8m. However, because of the stronger pound in the intervening period the effect on Clyde's cashflow will not be as great.

The new deal represents a 38 per cent premium to Crusader's A$1.21 pre-offer share price.

Triton Energy, the US oil producer and Crusader's biggest shareholder with 49.9 per cent, said at the time of Clyde's offer in May that it intended to accept the deal in the absence of a higher bid. The group was understood to have been in talks with two other bidders before the Clyde announcement.

Crusader's board had described the bid as "fair and reasonable". The company had reported a post-tax loss of A$3.3m after abnormal items in 1995 and net assets of A$141.5m in 1995.

The offer, which was due to close on July 5, has been extended by a week.

Mr Malcolm Gourlay, Clyde's executive chairman, said the deal would increase Clyde's reserves by almost 5,000 barrels of oil equivalent a day and would also lengthen its reserve life by about eight months to just over eight years.

Harvey Nichols leaps 53%

By Simon Kuper

Harvey Nichols, the Sloane Ranger's favourite London department store, saw annual pre-tax profits rise 53 per cent to £9.2m ($14.1m), two months after its flotation.

Mr Dickson Poon, the Hong Kong-based chairman, said that sales since the March 30 year-end had risen more than 20 per cent over the same period last year, boosted by the 4,800 square foot expansion in floor space.

The group plans to open its first of several stand-alone restaurants at the Oxo Tower Wharf on London's South Bank in September, and a second store in Leeds in October. Mr Clive Morton, finance director, said: "We think the UK can only sustain four of our stores in total." After Leeds, Harvey Nichols would consider opening in Glasgow, Newcastle or Manchester. Turnover last year was 16 per cent ahead at £90.2m. Mr Poon said this was because the group had improved its sales mix and modernised and increased its sales area. Mr Morton said turnover per square foot had risen from £535 to £622, up from £400 in 1993.


Dickson Poon: current year sales ahead 20 per cent

Food retail and hospitality area sales rose 19 per cent to about £13.4m thanks to Sunday trading, higher cover charges, and growing recognition. There will be no dividend, but the company plans to make its first ever pay-out at this year's interim stage. Earnings per share were 10.6p (9.3p).

The shares rose 5p to 336p yesterday, up from the April flotation price of 270p. That was seen as aggressive because it rated the stock at 26 times historic earnings.

M&S to open ninth store in Hong Kong

By Louise Lucas in Hong Kong

Marks and Spencer is to open its ninth and biggest store in Hong Kong in spring next year, taking it a step closer to its goal of 15 local stores by 2000.

Asia is becoming increasingly important to the group: it now has 31 stores in six countries in the region. It has also opened a representative office in China. In Hong Kong last year the group's turnover rose 27 per cent to £90.2m, while operating profit increased 22 per cent to £15.6m.

The newest store will be based in the new Plaza Hollywood shopping centre at Diamond Hill on the densely populated Kowloon peninsula. Mr Jim MacDonald, M&S regional director, calculates that more than 1m people, or one-sixth of the colony's population, live and work in the Diamond Hill area.

The Diamond Hill site, sold for more than HK$3bn in February 1993, is owned by a consortium led by Wharf, the infrastructure/property company. This marks M&S's third tie-up with Wharf.

Prices for goods in Hong Kong are an average 20 per cent higher than similar goods in the UK stores.

The Diamond Hill site is the retailer's second foray into residential areas in Hong Kong. It began by opening stores in prime shopping locations, but has since opened a store in a residential area of Shatin.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour ending	Pool purchase price	Pool selling price
[illegible]	[illegible]	[illegible]

Financial Times Annual Report Service

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PRIMAGAZ GROUP

The development strategy followed by the Primagaz Group over several years has made them today the European specialist in liquid petroleum gas (LPG). In the 13 countries where it has business activities, the PRIMAGAZ Group controls 21% of the distribution of LPG. It services 15 million homes and businesses in Europe and around the Mediterranean basin. The Group intends to develop its LPG market in new countries, keeping such external growth under control as experienced in previous years.

Key figures (in million of francs)	1995	1994
Turnover	7,376	5,607
Shareholder's equity	3,807	2,702
Net profit, group share	334	284

Chairman and Chief Executive Officer : Jean-Charles [illegible]

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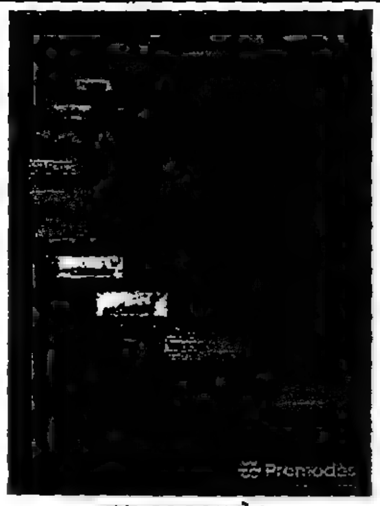

PROMODÈS

Measured by the sales generated through its trading networks, (FRF 159.7 billion in 1995, 8.9% increase over 1994 - USD 32.3 billion-), the Promodès Group is now France's second largest food retailer and ranks among Europe's five leaders in its business sector. Its determined growth strategy has targeted diversification into various segments of the retail food trade: *Hypermarkets* : Continent, Continente - *Supermarkets*: Champion - *limited assortment discount stores* : Dia - *Convenience Stores*: Shopi, Codec, 8 à Huit. - *Cash & Carry and institutional wholesaler*: Promocash, Puntocash, Prodirest. The rapid growth of the Group's domestic business has been accompanied by expansion into foreign markets: In particular, Spain, Germany, Greece, Italy, Portugal, Belgium and Turkey.

Promodès WEB SITE. http://www.promodes.fr

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PSA Peugeot Citroën in 1995

The PSA Peugeot Citroën Group has held onto its position as the third-largest manufacturer in Europe with a market share of 12%. This year saw new development in the Peugeot and Citroën ranges. The two makes successively launched the Citroën Xantia Estate, the Peugeot 406, the medium-sized commercial vehicles the Peugeot Expert and Citroën Jumpy and the electric versions of the Peugeot 106 and Citroën AX.

Group turnover reached 164.2 billion French Francs, with worldwide production of 1.9 million vehicles. *Net profit amounted to 1.7 billion French Francs with an operating margin of 3.8 billion French Francs. The group is once again France's major exporter, with exports to the value of 74.5 billion French Francs.*

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ROUSSEL UCLAF

Roussel Uclaf business operations produced wholly satisfactory results in 1995. This was achieved despite measures taken in various countries to contain healthcare spending, and despite the weakness of several currencies, notably the dollar, against the French franc. The increase in comparable net income shows an improvement in profitability, as a result of unwavering efforts to cut costs and optimise product portfolios over the past several years.

In 1995, Roussel Uclaf turned a decisive point in its history, being now tied to Hoechst Marion Roussel. This new entity is one of the world's top pharmaceutical firms and is set on becoming the global number one. Consolidated sales: FF16.5 billion. Comparable net income: FF1.3 billion.

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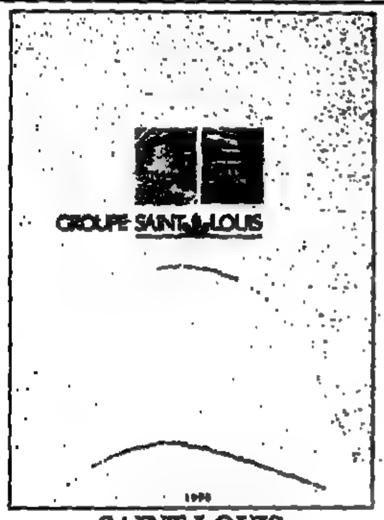

SAINT LOUIS

An international industrial group - We aim to boost productivity in all our businesses in order to create a sound basis for expansion. We have the determination and the means to pursue an ambitious growth policy.

Two businesses: agri-foodstuffs and paper - *Through Générale Sucrière, Saint Louis generates a turnover of FRF 6.2 billion*: it generates FRF 1 billion in turnover with Royal Champignon and it owns 34.5% of ready meals maker Panzani, with a turnover of *FRF 8.4 billion*. - *Through Arjo Wiggins Appleton*, one of the world's leading paper groups and Europe's number one distributor of graphic papers, *Saint Louis controls a turnover of FRF 28 billion.*

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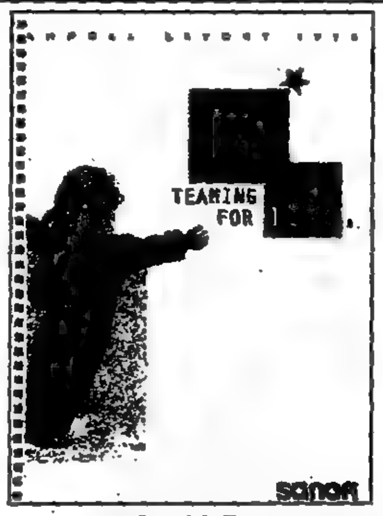

SANOFI

In 1995, Sanofi successfully integrated Sterling Winthrop's prescription pharmaceuticals business. The very satisfying growth [illegible]

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SCHLUMBERGER

An international company providing products and services in two areas:

- Oilfield Services, offer to oil companies services to enhance their efficiency in all phases of exploration and production of oil and gas reservoirs;
- Measurement & Systems, world leader in manufacturing of water, gas and electricity meters, also provide systems and services for automatic payments and automatic test equipment systems for electronic components.

1995 key figures ($ millions)	
Operating revenue	7622
Net income	649

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SCHNEIDER SA

In 1995, Schneider recorded consolidated net sales of FFr 59.4 billion and net income (group share) of FFr 817 million (20.9% rise from 1994) with a 92,700 strong workforce present in 130 countries.

The Group has 100% control of its subsidiaries:

- Schneider Electric, a global specialist manufacturer focused on electrical distribution, industrial control and automation products and services, with three main brands: *Merlin Gerin - Square D - Telemecanique.*
- Spie Batignolles, a global specialist focused on electrical contracting and construction.

Chairman and Chief Executive Officer
Didier Pineau-Valencienne

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SCOR

1995. 10% return on equity. France's no.1 reinsurance company increased its net income by 85% to FRF 522 million. As the world's no. 3 reinsurance group, SCOR is present on all major markets worldwide, via subsidiaries in the United States, Canada, the United Kingdom, Italy, Germany, Singapore, Hong Kong and, shortly, Brazil. SCOR is continuing to reinforce its provisions.

1995 Key Figures	(in FRF millions)	95/94
Gross written premiums	11,648	+ 1.7%
Net technical reserves	21,711	+ 8.1%
Group net income (excluding minority interests)	522	+ 85%
Shareholders' equity (excluding minority interests)	5,146	+ 3.2%

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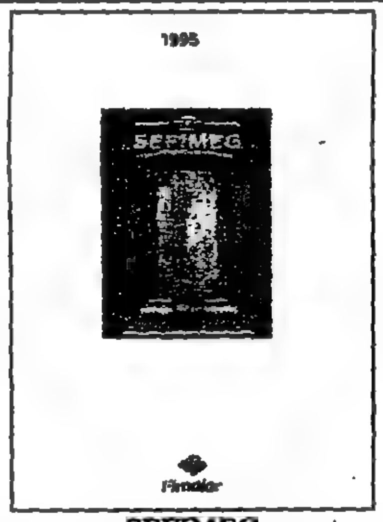

SEFIMEG

Since its creation in 1966 Sefimeg has been one of the main property companies quoted on the Paris Bourse. Its business activity consists of the acquisition and rental of premises mainly for residential use. The property of Sefimeg and its subsidiaries is today composed *of 8,266 residential properties, 166 489m² of office space, 56,335 m² of retailed spaces 48 034m² of commercial property and 11,817 parking spaces. The average level of occupation in 1995 was 98% for residential property and 91% for offices and commercial* property. The consolidated rental revenue rose to 601 million francs. The dividend proposed at the Ordinary General Meeting on the 20 June is 14.20 francs per share, ie a global coupon of 21.30 francs including tax credits.

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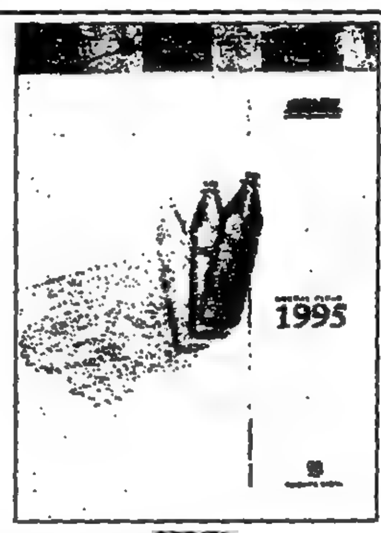

SIDEL

In line with FY 1994, SIDEL registers for 1995 a record growth with a consolidated turnover amounting by 44.5%, to FRF 3,704.3 million, and strengthens its worldwide leadership for blow molding machines for PET bottles. The high profitability of the Group is maintained: net income, rising by 33.5%, amounts to FRF 374.1 million (10.1% of turnover). At a constant taxation basis, it would have been 10.6%. *Net dividend is FRF 16.50 (+34.4%), considering the 1 for 10 bonus issue* executed on September 1, 1995.

Although 1996 will be a transition period, general trend of PET market, and the steady innovation policy of the Group - smaller packaging, fruit juice, beer, aseptic, ultra-clean, in particular - confirm the solid growth potential of SIDEL.

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UAP GROUP

"Despite substantial exceptional charges - which free up the future and put our operations on a sounder basis - 1995 was a satisfactory year for us as an insurer and, in an often inhospitable environment, we made progress towards improving the profitability of our business." Jacques Friedmann, Chairman

In 1995 the UAP Group put the finishing touches on its European network and completed the organisation of its structure into profit centres. Since boosting profitability was the top priority, UAP continued streamlining its international network through business combinations, mergers and disposals. At the same time, a number of co-operation agreements were signed to broaden the Group's sphere of activity. Lastly, UAP systematically made the most of its various complementary skills in many different activity sectors with the aim of improving client service.

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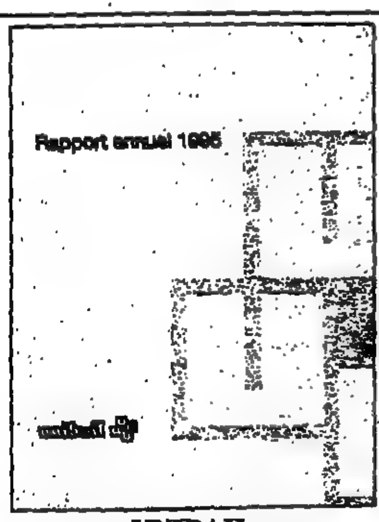

UNIBAIL

UNIBAIL *is one of the major property companies included in the SBF index of the 120 leading shares listed on the Paris Stock Exchange.* Its property portfolio, which is well balanced between shopping centres and Paris office buildings, has been valued by independent experts at FFr 10.3 billion. Following a succession of acquisitions, 1995 was dedicated to consolidation, with two main events, the statement in the accounts of all the property assets at their market value and successful lettings. Further improvement in net profits at FFr 265 million allowed, this year again, a higher dividend of FFr 28 per share to be paid (against FFr 27 last year). UNIBAIL pursues its strategy seeking to achieve high yields and capital gains through a dynamic management of its property portfolio.

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USINOR SACILOR

Usinor Sacilor is the leading steel producer in Europe and ranks second worldwide in terms of sales. The Group's businesses are organised into three core divisions: Carbon Steel Flat Products, Stainless Steel and Alloys, and Speciality Products. In 1995, Usinor Sacilor pursued its policy of creating value in the field of high quality steels, working in close relationship with its most demanding industrial customers. The policy is implemented by a highly skilled and dedicated workforce. The Group has the resources to maintain the world-class standard of its production facilities, while taking out costs and strengthening the financial structure. It is currently reviewing or finalising a number of growth projects in Asia.

Consolidated Financial Highlights, 1995	
FRF billion	
Net Sales	78.4
EBITDA	12.3
Income from operations	6.1
Group net profit	4.4
Cash flow	8.1

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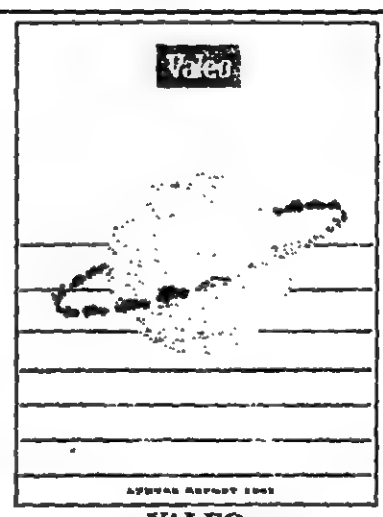

VALEO

Valeo is an independent automotive components and systems supplier and a partner to major car and truck manufacturers world-wide. Valeo is present in all the key automotive functions and has 94 production plants and R&D centres in 20 countries in Europe, North and South America and in Asia.

Key figures:

- Total workforce: 29,600 people
- Net income: 4% of sales
- Net indebtedness: 2% of stockholders' equity
- Dividend per share up by 23%

Chairman & CEO: Noël Goutard

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INTRUM JUSTITIA

Intrum Justitia is the largest debt collection company in Europe, offering a range of Inkasso and credit management services. The group is listed on the London Stock Exchange and has subsidiaries in 15 European countries, complemented by a network of 120 agents worldwide. In 1995, pre-tax profits were £15.6 million on turnover of £86.7 million. At the year end, Intrum Justitia had over 50 000 clients and more than 1,000 employees.

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- 66. ☐ Promodès
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- 68. ☐ Roussel Uclaf
- 69. ☐ Saint Louis
- 70. ☐ Sanofi
- 71. ☐ Schlumberger
- 72. ☐ Schneider SA
- 73. ☐ Scor
- 74. ☐ Sefimeg
- 75. ☐ Sidel
- 76. ☐ UAP Group
- 77. ☐ Unibail
- 78. ☐ Usinor Sacilor
- 79. ☐ Valeo
- 80. ☐ Intrum Justitia

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COMMODITIES AND AGRICULTURE

Central banks expected to boost gold trading

By Kenneth Gooding, Mining Correspondent

Central banks can be expected to be more active in both the primary and secondary markets for gold and to respond more quickly to market demands in future, according to Mr James Cross of the Crosswords consultancy.

Mr Cross, between 1987 and 1995, was general manager of South Africa's Reserve Bank and he recently completed an informal survey of a number of bullion banks which revealed the relationship between the gold market and central banks has been changing significantly.

For example, the secondary, or deposit, market – which helps to provide liquidity for gold forward sales and hedging operations – has more than doubled in size from 900 to 2,100 tonnes. Mr Cross calculates that the total potential tonnage of gold held by central banks willing to take part in this business is 7,900 tonnes and the average they had on deposit at the end of last year was 27 per cent.

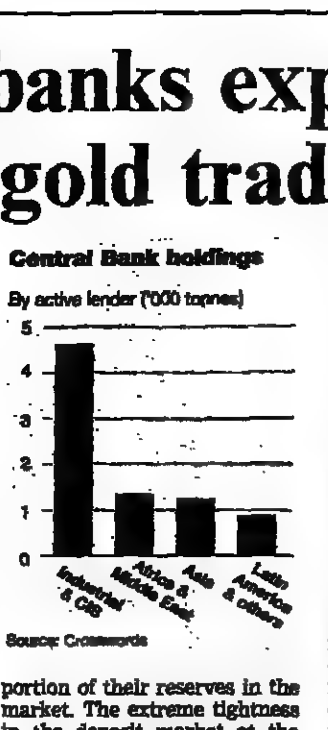
Mr Cross's research shows that the average time the banks are willing to put their gold on deposit is lengthening from three to six months but very few central banks will deposit beyond one year. Mr Cross insists, however, "this would change if [interest or lease] rates were more attractive".

When lease rates shot up in December last year some new central bank participants were attracted into the market. "Banks are now prepared for and ready to respond more rapidly to changes in the lease rate," he suggests.

Mr Cross says that, although central banks usually have the capability of helping their domestic banks with liquidity in times of stress, this may well not be the case where gold is concerned, either because they are not active in the deposit market or they do not wish to deposit a higher proportion of their reserves in the market. The extreme tightness in the deposit market at the end of last year "put a number of bullion banks under liquidity pressure and ultimately led to at least one bank ceasing bullion operations".

Central Bank holdings

By active lender ('000 tonnes)



Source: Crosswords

Mr Cross suggests that in the primary gold market the central banks are likely to sell some gold "when domestic needs arise". He says there is an increasing need for an official selling mechanism to be established which would help large central bank gold transactions to be executed.

His research also showed that central banks are increasingly using derivatives in some form or another to enhance the quality of their reserve asset management and "we can expect to see a knock-on effect in the gold derivative markets".

NZ dairy exports flourish in Latin America

The region now accounts for a quarter of the sector's overseas sales, writes Terry Hall

South America is rapidly becoming one of New Zealand's most important markets for dairy produce.

Five years ago New Zealand sent minimal quantities of dairy products to the major Latin American countries, but in the past year over NZ$1bn (US$680m) worth of products were shipped there, and the Dairy Board believes the trade will continue to grow strongly.

Latin America now takes 25 per cent of all New Zealand's dairy exports – a similar percentage to Asia, a market New Zealand has been struggling to develop for many years.

Unlike Asians, who traditionally used few dairy products and needed to be encouraged to buy them, South Americans have always counted dairy goods as a staple part of their diet.

New Zealand dairymen have known of the potential of Latin America for decades, but trade barriers and economic problems encouraged the industry to seek markets elsewhere. Now, however, the success of the Chilean economic recovery has spread throughout South America, and with it trade liberalisation.

Brazil is the scene of one of the New Zealand dairy industry's most dramatic success stories. For years Brazil banned dairy imports, declaring itself to be self-sufficient. The New Zealand Dairy Board was quick to exploit the opening of this market, and trade has grown from nothing to around $50m in a little over two years. With half of Brazil's population aged under 20, the industry is forecasting continuing growth in this market, and trade minister Philip Burdon will shortly open a Brazilian office for board subsidiary New Zealand Milk Products Brazil.

Rather than compete in the bulk commodity sector with other dairy producers, such as Uruguay and the European Union, New Zealand has decided to concentrate on the value-added specialist food sector, especially ingredients for the fast food and related processing industries. This will include such things as yoghurt and confectionery.

Board spokesman Neville Martin sees exciting potential. "We can see Brazil becoming one of our most important markets in future," he says. "The population growth there is enormous: it is really one of last great frontiers, and it was off limits to us for years."

Staff numbers in Brazil have grown to 12, with an emphasis on technological expertise. Later on the board will concentrate on developing branded products including cheese.

As part of its expansion in Latin America, the board has recently bought manufacturing and packaging companies in Venezuela, Chile and Mexico. Over the past five years New Zealand has become the major supplier of dairy products to Peru.

The board this week warned farmers to expect a 15 per cent drop in returns to around $3.20 a kilogram in the coming season, beginning July 1, compared with the record $3.60 for the season to June 30. Mr Martin says the board does not expect any substantial lift in prices this calendar year. However, he adds, there is no significant stock building under way, or surpluses in sight, which is a promising sign.

There has been a sizable drop in the international price for butter, in part because of lower sales to Russia. Prices of milk powder have stabilised, but casein powder and cheese prices are soft.

Mr Martin says that although most prices have fallen from the high levels of six months ago they remain at satisfactory levels. He attributes the health of the industry largely to the successful implementation of the General Agreement on Tariffs and Trade settlement over the past year.

Growing band of cashmere producers trades on scarcity value

Alastair Guild on problems an opportunities in an industry producing one of the world's most sought after fibres

Cashmere's eastern origins, its exclusivity and rarity have given it a cachet to add to its softness and durability. Now the European cashmere industry is concerned that, before long, its supplies of raw cashmere from the East might dry up altogether, absorbed by the rapidly developing fashion industries in cashmere producing countries.

The rising incidence of contamination of cashmere and the misleading labelling of garments as "Cashmere" are indicative of the material's increasing scarcity and potentially damaging for its name.

Price swings of 20 per cent have become quite common, but the overall price has more than doubled in the past three years, reaching $150 a kilogram of ready-to-spin cashmere, ten times the price of the finest lambs wool.

European manufacturers see closer links with producing countries as one way of securing greater continuity of supply. China has the largest population of cashmere goats, 60m concentrated in Inner Mongolia, but also spread across northern provinces and Tibet. China produces 5,000 tonnes off Cashmere each year, half of it suitable for spinning.

There are 8.5m cashmere goats across the border, in south and west Mongolia, up 3m over the last four years. Mongolia now producing some 2,000 tonnes of hair, yielding more than 1,000 tonnes of spinnable cashmere. Afghanistan and Iran together produce some 2,000 tonnes but, on average, only 20 per cent of the hair of these fleeces is useable.

China has concentrated on breeding for fineness, length and pure whiteness on goats that thrive in the very hot summers and extremely cold but dry winters of the Mongolian and Himalayan regions. The hosiery trade pays a premium for fines pure-white cashmere, which it can turn into garments of an almost infinite variety of pastel shades.

Mongolia's cashmere, though slightly coarser, is also used in hosiery. Cashmere from the Afghan and Iranian area, which is coarser and rougher still, is used mostly by the weaving trade to make coats, scarves and accessories.

China has been moving rapidly on from being simply a producer of raw cashmere. The first step is "dehairing", a complex process of separating the goat's coarse "guard-hair" from the soft undercoat of cashmere. Some large enterprises have added dying, spinning, weaving and knitting and garment finishing in the past three years. Between 60,000 and 70,000 Chinese are now employed in downstream businesses associated with cashmere.

The Chinese have created a middle market for cashmere garments and blends of cashmere and other fibres at lower price levels, selling particularly into the private label – as distinct from branded – business, overseas but increasingly for the domestic market, which now accounts for 25 per cent of sales. This is absorbing more and more of China's cashmere. China's garment industry could conceivably be using up the country's entire production within the next three years, say some analysts.

"We went into China to conserve our source of fibre supply," says Peter Forrest, managing director of Dawson International, which 18 months ago entered into a joint venture with Luyuan, the second largest Chinese processor. "It was clear the Chinese were going to develop downstream and we wanted to be part of that, to influence the process rather than being increasingly isolated."

Mongolia has recently started to attract significant interest from foreign investors also. Cashmere is its second most important export after minerals. The Mongolian government banned the export of unprocessed fleeces in 1994, in an attempt to bring foreign investment into downstream activity, stipulating that exported material should at least be dehaired. The ban is likely to be lifted this year, but the aim of the Mongolians remains to add value.

Its Gobi factory is claimed to dehair 25 per cent of the world's raw cashmere, also making garments and blankets. Italian company Lora, which has already sold processing machinery to the Mongolians, is planning to add to this spinning and weaving capacity. Several US and British companies are also establishing or in negotiations over possible joint ventures.

Given the high world price, European farmers increasingly see cashmere as a serious prospect for diversification. Italian, Spanish and Czech as well as UK farmers now have animals resulting from a 10 year breeding programme on the Scotland/England border. Other European Union and eastern European countries are expressing interest in these animals, the product of crosses of UK feral goats and goats from Iceland, Tasmania, New Zealand and Siberia.

The current UK cashmere goat herd of 5,000 animals produces under a tonne of spinnable dehaired cashmere, but of less than 16 microns diameter, similar in fineness to Chinese cashmere but with a greater length. "The UK would need a herd of 2m breeding females to be completely self-sufficient in cashmere," says Dr Angus Russel, of the Macaulay Land Use Research Institute who is co-ordinating a 3-year EU research programme into cashmere goats. "But that number of goats would replace only about 8 per cent of the national sheep flock, by no means a ridiculous objective for the long term." Goats are complementary to sheep and, properly managed, will improve the quality of their grazing. Norway and Greece are both interested in keeping goats for milk and cashmere. Cashmere goats from the UK breeding programme are already providing milk yields comparable with the general goat population in southern Europe. There would also need to be a significant market for goat's meat in the UK to make a large cashmere herd viable. Some ethnic minorities already buy some and Sainsburys is now stocking it in three of its south-east stores on a trial basis. Most critical of all is likely to be way the government decides to allocate subsidies, says Dr Russel.

Annual premiums and hill livestock compensatory allowances are available in many European countries for goats as well as sheep, but in the UK are confined to sheep. With subsidy removed, the gross margin for hill ewes would be clearly less than for cashmere goats, according to research by Edinburgh University's Institute of Ecology and Resource Management. "Higher numbers and volume of fibre and meat throughput is likely to result in a drop in unit cost per goat and higher output prices for fine fibre," says the research report. "The development of European rural fine fibre enterprises would go along way to satisfying the objectives of the EU's initiative for rural development."

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1474-5	1511-2
Previous	1473.5-4.5	1511-2
High/low		1515/1506
AM Official	1489-9.5	1506-6.5
Kerb close		1512-3
Open int.	[illegible]	
Total daily turnover	39,196	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1255-65	1295-300
Previous	1260-70	1295-300
High/low		1300/1290
AM Official	1265-6	1290-1
Kerb close		1295-300
Open int.	5,177	
Total daily turnover	1,416	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	775.5-6.5	795-5.0
Previous	789-90	795-6
High/low		792/785
AM Official	780.5-1.0	789-90
Kerb close		789-90
Open int.	33,907	
Total daily turnover	6,449	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7465-75	7580-90
Previous	7540-50	7655-60
High/low		7630/7550
AM Official	7435-40	7551-3
Kerb close		7610-20
Open int.	40,135	
Total daily turnover	13,677	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6180-90	6220-25
Previous	6235-45	6280-85
High/low		625/6220
AM Official	6205-10	6240-45
Kerb close		6230-40
Open int.	15,757	
Total daily turnover	2,559	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1004-5	1031-2
Previous	1002.5-3.5	1031-1.5
High/low	1002	1033/1029
AM Official	1002-2.5	1029-30
Kerb close		1033-4
Open int.	69,698	
Total daily turnover	8,054	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1835-40	1799-800
Previous	1905-10	1856-60
High/low	1825	1815/1770
AM Official	1830-35	1785-90
Kerb close		1798-800
Open int.	198,688	
Total daily turnover	110,395	

■ LME AM Official £/$ rate: 1.5410
LME Closing £/$ rate: 1.5400

Spot: 1.5415 3 mths: 1.5408 6 mths: 1.5412 9 mths: 1.5424

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	102.00	+7.00	102.00	94.00	243	713
Jul	88.05	+3.40	88.50	83.90	4,214	10,357
Aug	87.85	+3.90	86.30	85.00	400	2,056
Sep	87.20	+3.95	88.00	82.70	8,091	18,842
Oct	87.40	+3.95	87.30	85.40	107	1,180
Nov	87.20	+3.55	87.20	85.50	48	1,006
Total					16,596	60,844

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	383.30-383.70		
Opening	384.00-384.40		
Morning fix	384.00	249.027	483.341
Afternoon fix	383.60	248.946	483.099
Day's High	384.30-384.70		
Day's Low	383.30-383.70		
Previous close	384.70-385.10		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.26	6 months	3.99
2 months	4.24	12 months	3.92
3 months	4.16		

Silver Fix	p/troy oz.	US cts equiv.
Spot	334.05	514.75
3 months	339.20	521.00
6 months	342.50	527.80
1 year	350.85	541.25

Gold Coins	$ price	£ equiv.
Krugerrand	383-386	248-250
Maple Leaf	394.40-396.90	-
New Sovereign	88-91	57-59

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

[illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

■ CRUDE OIL IPE ($/barrel)

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

■ GAS OIL IPE ($/tonne)

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

■ BARLEY LCE (£ per tonne)

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

■ SOYABEAN MEAL CBT (100 tons; $/ton)

■ POTATOES LCE (£/tonne)

■ FREIGHT (BIFFEX) LCE ($10/index point)

[illegible]

SOFTS

■ COCOA LCE (£/tonne)

■ COCOA CSCE (10 tonnes; $/tonnes)

■ COCOA (ICCO) (SDR's/tonne)

■ COFFEE LCE ($/tonne)

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

■ COFFEE (ICO) (US cents/pound)

■ WHITE SUGAR LCE ($/tonne)

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

■ COTTON NYCE (50,000lbs; cents/lbs)

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

■ LIVE HOGS CME (40,000lbs; cents/lbs)

■ PORK BELLIES CME (40,000lbs; cents/lb)

[illegible]

FUTURES DATA
All futures data supplied by CMS.

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

■ CRB Futures (Base: 1967=100)

■ GSCI Spot (Base: 1970=100)

[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jul	Oct	Jul	Oct
1400	86	165	0	25
1500	10	101	26	59
1600	-	58	115	111
■ COPPER (Grade A) LME	Jul	Oct	Jul	Oct
1700	142	199	6	99
1800	66	149	30	147
1900	22	109	86	204
■ COFFEE LCE	Jul	Nov	Jul	Nov
1500	50	79	288	326
1550	41	69	309	368
1600	33	61	351	406
■ COCOA LCE	Sep	Dec	Sep	Dec
950	13	46	165	117
975	11	39	187	135
1000	9	33	210	154
■ BRENT CRUDE IPE	Aug	Sep	Aug	Sep
1750	-	39	13	39
1800	40	27	22	-
1850	25	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$17.19-7.29	+0.16
Brent Blend (dated)	$18.46-8.54	+0.14
Brent Blend (Aug)	$18.25-8.28	+0.155
W.T.I.	$20.10-2.12x	+0.185

■ OIL PRODUCTS NWEprompt delivery CIF (tonne)

Premium Gasoline	$201-203	
Gas Oil	$184-186	+2.5
Heavy Fuel Oil	$84-86	
Naphtha	$170-172	
Jet fuel	$188-190	+2
Diesel	$165-167	+3.5

■ NATURAL GAS (Pence/therm)

Bacton (Jul)	11.93-12.80	-0.10

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

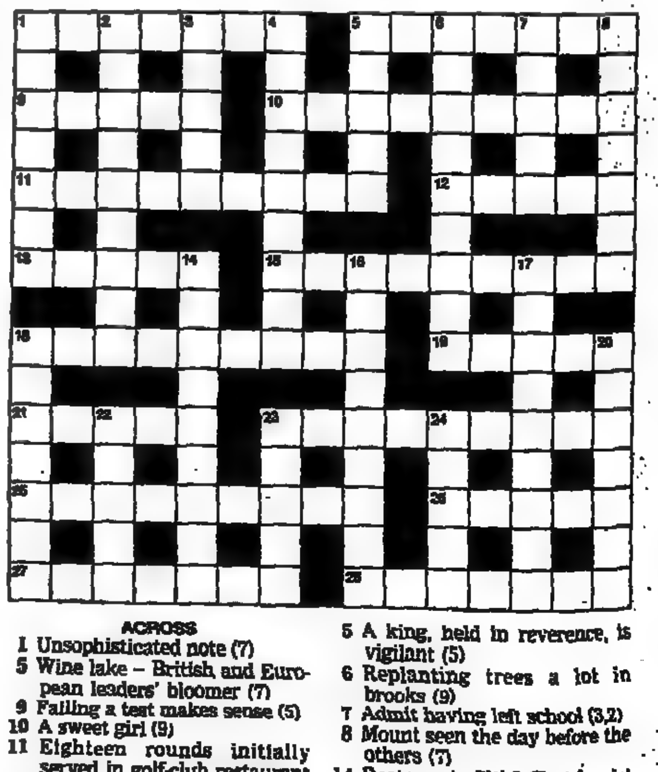
Gold (per troy oz)§	$383.50	-1.40
Silver (per troy oz)‡	518.50c	-8.0
Platinum (per troy oz.)	$390.50	-1.50
Palladium (per troy oz.)	$131.40	+0.75
Copper	107.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.26r	-0.02
Tin (New York)	291.50	
Cattle (live weight)	89.24p	+0.20*
Sheep (live weight)	113.96p	+1.02*
Pigs (live weight)†	117.73p	+1.57*
Lon. day sugar (raw)	$295.20	+1.60
Lon. day sugar (wte)	$386.20	-0.80
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Jul)¥	99.00p	-1.25
Rubber (Aug)¥	99.00p	-1.25
Rubber (KL RSS No1)	364.00m	-2.00
Coconut Oil (Phil)§	$15.0w	-15
Palm Oil (Malay.)§	$492.5z	-2.5
Copra (Phil)§	$531.0w	
Soyabeans (US)	216.0	-2.0
Cotton Outlook'A' index	80.40c	-1.40
Wooltops (64s Super)	428p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x Aug. w Jul/Aug. z Jul/Sep ¥ London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. †Based on 1,325 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,105 Set by CINCINNUS



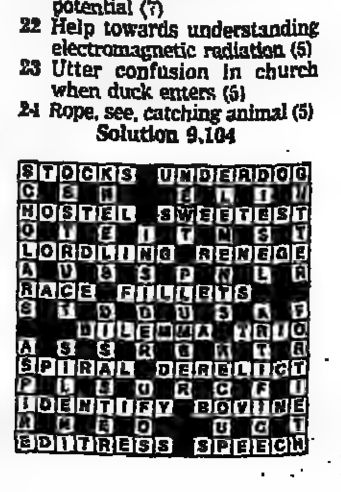
ACROSS

1 Unsophisticated note (7)
5 Wine lake – British and European leaders' bloomer (7)
9 Failing a test makes sense (5)
10 A sweet girl (9)
11 Eighteen rounds initially served in golf-club restaurant (9)
12 Scope for chain (5)
13 The decree of the dictator (5)
15 Hosiery container in perilous situation (5,4)
18 Is it possible that savers upset an election worker? (9)
19 An insect bite isn't terribly grand (5)
21 Childless prince in Provence (5)
23 Mountebank taking tea round part of South Africa (9)
25 Apprehending son acting badly (9)
26 Always poetically following street guide (5)
27 Correspondence from landlords? (7)
28 America is taken in by perverted oral stimulation (7)

DOWN

1 Prominent or incompetent (7)
2 Islander with sun craze getting brown all over (9)
3 Dances held somewhere else (5)
4 Tears material, tears material (9)
5 A king, held in reverence, is vigilant (5)
6 Replanting trees a lot in brooks (9)
7 Admit having left school (3,2)
8 Mount seen the day before the others (7)
14 Doctor eats filth? C'est la vie! (5,4)
16 Giant fish, note, approaches Italian city (not capital) (9)
17 Don't indicate so much that's futile (9)
18 Risk taken by Labour leader in part of church (7)
20 Officer – dope with real potential (7)
22 Help towards understanding electromagnetic radiation (5)
23 Utter confusion in church when duck enters (5)
24 Rope, see, catching animal (5)

Solution 9,104



Financial Times Annual Report Service

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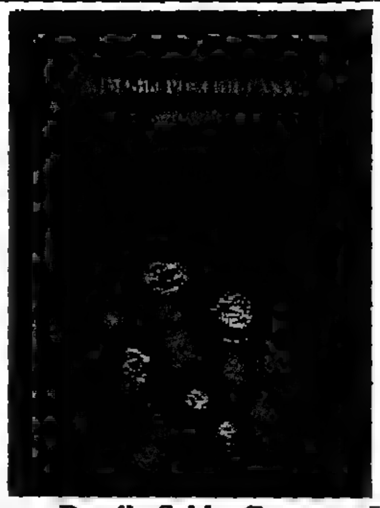
BELGACOM

BELGACOM is the principal telecommunications operator in Belgium. With a turnover of 127.1 billion BEF in 1995, the group posted a record net profit (group share) of 10.7 billion BEF, an increase of 8.0%. At the end of 1995, BELGACOM had 26,012 [illegible] employees, [illegible] consolidated subsidiaries (Belgacom Mobile and Belgacom Directory Services).

The major events for 1995 were undoubtedly

- the choice of the consortium made up of Ameritech, Tele Danmark and Singapore Telecom, three of the most efficient telecommunications operators, as strategic partners
- the implementation of the TURBO plan, a comprehensive project aimed at strengthening the group and improving accountability, focusing on the various types of customers and their specific needs
- further improvements in customer service
- the creation of the Pension Fund as a separate legal entity. The Fund manages the liabilities involving retirement pensions for statutory employees, i.e. 46 billion BEF at the end of 1995.

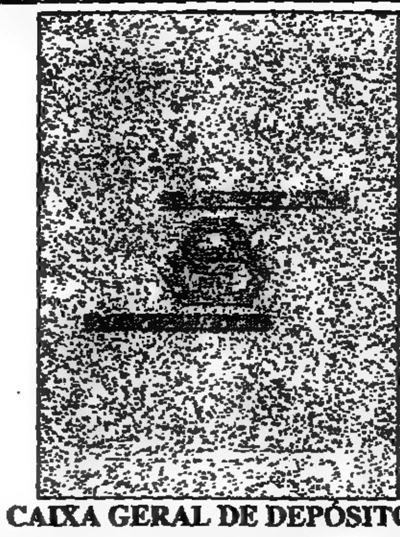
82



Almazy Rossii - Sakha Company Ltd.

In 1995 [illegible] in the fields of diamond mining, geological prospecting and construction were accomplished. [illegible] $1,777.8m, which is 106.5% compared to 1994, 3,397.4 bn Rbs or $791.5m [illegible] 36.5 bn Rbs. In 1995 ARS celebrated the 40th anniversary of the [illegible] in Russia. [illegible] De Beers, [illegible] the Government of Russia and Yakutia [illegible] the new Trade Agreement. The management of ARS [illegible] the management structure and the existing economic mechanism.

83



CAIXA GERAL DE DEPÓSITOS

Caixa Geral de Depósitos, S.A., established in 1876, is Portugal's largest bank and leads the most important domestic financial group -CGD GROUP - with major subsidiaries in commercial and investment banking, insurance, leasing, factoring, fund management, real estate and venture capital. As a universal bank, CGD offers a complete financial service worldwide, backed by its branches, affiliated banks and correspondents.

1995 Consolidated Key Figures of Caixa Geral de Depósitos are:

- Net Assets: PTE 6,898 billion (up 10.9% over 1994);
- Total Deposits: PTE 5,539 billion (up 11.2%);
- Loans and Advances: PTE 4,407 billion (up 14.0%);
- Net Income for the Year: PTE 56 billion (up 34.2%);
- Solvency Ratio: 13%

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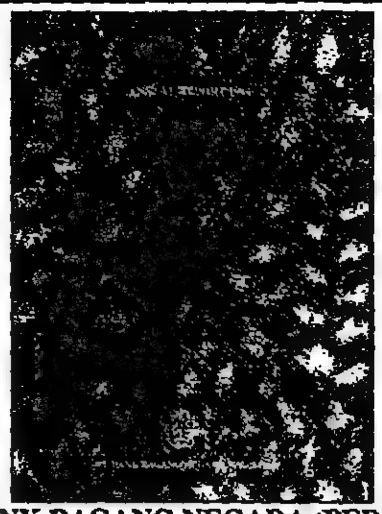

PT BANK DAGANG NEGARA (PERSERO)

The BDN's current activities were a continuation of the Nederlandsch Indische Escompto Maatschappij's banking operations established in Jakarta in 1857. The name was then changed into Escomptobank NV in 1949 and further into PT Escomptobank in 1958. PT Escomptobank was nationalised and liquidated bearing the name BDN as of April 11, 1960. The legal status of BDN (state-owned Bank) became PT Persero, meaning state limited liability company. At present, the bank has 8,738 employees, and 192 offices (incl. 5 overseas offices) and it is among the fifth largest bank in Indonesia.

The summary of the statement of condition of December, 1995 (Billion Rupiah) is total assets 27,609, deposits 14,656, loans 20,079, and profits before tax 236.

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ROSTELECOM - means Skill to Work

Rostelecom is...

- international and long distance telecommunications joint stock company
- largest Russian carrier holding 95% of country's long distance market
- strong and reliable partner of more than 200 international carriers and 100 Russian local loop operators
- longest world digital telecom highway which completes the global telecommunications loop
- international standards in audit and finance reports, professional stock market approach

Rostelecom is a respected, reliable and fast growing Russian company

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LIPPO BANK

Lippo Bank, established in 1948, is one of Indonesia's leading commercial banks with a network of 290 offices in 98 cities throughout Indonesia. As part of the Lippo Group of companies, it has subsidiaries, affiliates and representative offices throughout the Asia Pacific region - in Hong Kong, China, Philippines, Thailand, Singapore, Malaysia, Vietnam, Australia and California - and joint venture alliances in Indonesia with eminent banking names such as Banque Nationale de Paris, Tokai Bank, Daiwa Bank, Bankers Trust and GMAC. The shares of Lippo Bank are actively traded on the Indonesian stock exchanges.

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GUTA BANK

Client relations are of the utmost importance for the Bank. Guta Bank provides its customers with an extended set of services comprising non-traditional ones. This became possible thanks to the membership of the Bank in Guta Financial Group which unites companies of virtually all business spheres - banking, portfolio management, construction, realty, consulting, insurance and foreign trade.

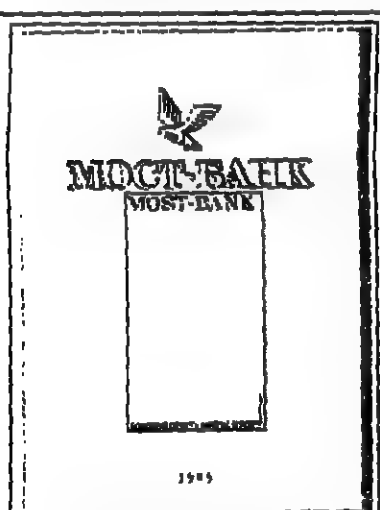
As of January 1, 1996 Guta Bank is rated 37th in terms of assets (USD 409 million) and 30th in terms of creditworthiness among 100 major Russian banks ("Izvestya", April 30, 1996). It is the policy of the Bank to strengthen its stability and to eliminate major risks for its customers. The first step in this direction is the formation of fully paid-in authorized capital of USD 60 million which is 5 times in excess of the previous volume.

88

PT Polysindo Eka Perkasa

The company has rapidly grown to a leading integrated chemical and textile manufacturer in the Far East. The company is listed on the Jakarta Stock Exchange and has an equity of 1,104 million ordinary shares and after the proposed rights issue will increase to 2,208 millions shares reflecting a market capitalisation of IDR of 2.76 trillion. Consolidated Operating Revenue rose to IDR 971 billion and Consolidated Net Income increased to IDR 211 billion in 1995, increase of 95.31% over the previous year. The company is in the final stages of completing a major expansion program to increase its production capacities to 330,000 tons of polyester chips, 180,000 tons of staple fiber, 340,000 tons of PTA and 22% million yards of textile fabrics per annum. The new plants are expected to commence commercial production in 1996.

89



MOST - BANK

Most-Bank, the financial core of a large holding company, has more than 20 branches in Russia and representative offices in London and Madrid. It is audited by Price Waterhouse and rated among Russian banks of the Highest Reliability Group. In 1995 the assets grew 1.6 times totalling 3,637,344.8m Rbl (783.9m US$), and a total equity increased 2.9 times equalling 413,919.8m Rbl (97.2m US$). The pioneer in card business and a major market-maker in government securities market, Most-Bank also provides project finance with a stress on real estate development. Its large correspondent banking network comprises major banks in all principal financial centres. In a rapidly changing economic and legal environment the bank renders consulting services to professional investors in Russian emerging financial markets.

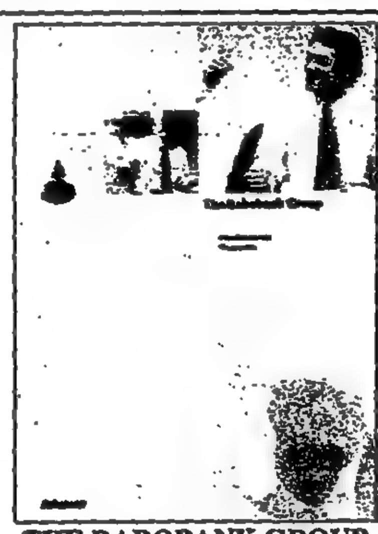
90

PT INDOCEMENT TUNGGAL PRAKARSA

Since it's founding in 1973, Indocement has become one of Indonesia' most profitable corporations, involved primarily in cement production and food manufacturing. Both PT Indocement Tunggal Prakarsa (Indocement) and PT Indofood Sukses Makmur (Indofood) are amongst the largest companies listed on the Jakarta and Surabaya Stock Exchanges. The company has over 27,000 dedicated employees in its employ as of the end of 1995.

The Group's net revenue in 1995 was Rp. 3,942.3 billion (up 16.4% on 1994) reflecting improvements in both the cement and food divisions. Gross profit and operating profit margins in 1995 were 36.5 and 26.1% respectively and the Group's earnings per share for the year ended 1995 improved to Rp 394 from Rp 305 in 1994.

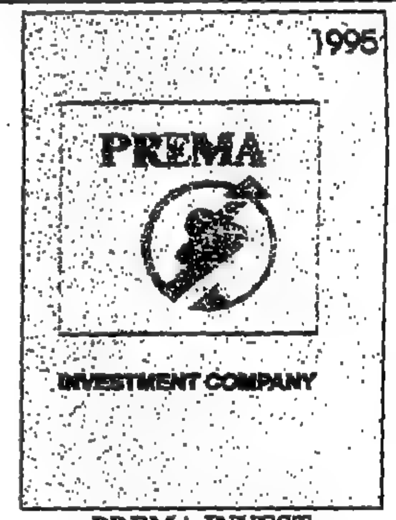
91



THE RABOBANK GROUP

Ranking among the top 10 banks in Europe and top 50 worldwide, this strong Dutch Group comprises the co-operative Rabobank, insurer Interpolis and leasor/factor De Lage Landen. With assets of NLG 293.5 billion and major domestic market shares in both retail and corporate sectors, it is increasingly expanding into international markets where its unparalleled food and agribusiness expertise is offered to clients through its extensive network in 30 countries. The Group brings a full range of banking, insurance, leasing and factoring products to clients both at home and abroad. Rabobank has gained a reputation for creative corporate finance as well as financial market and investment banking activities, trust and private banking.

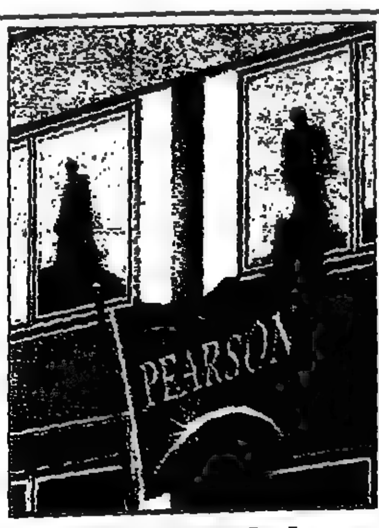
92



PREMA INVEST

The independent Russian company PREMA INVEST was created in April 1993 and began working in the emerging Russian share market. PREMA now occupies one of the top positions on the share market. Today PREMA possesses a strong brokerage network with branches in St. Petersburg, Ekaterinburg, Tyumen, Surgut and works successfully in the following sectors: brokerage and trading operations; investments and administration of projects; consulting service on investments in Russia; assets and portfolio management. Our monthly turnover exceeds 25 million dollars. We aim to organise long-term co-operation, and do not aim for short term profit. The success of our Clients is also the success of our company.

93



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94

RAO GAZPROM

Rao Gazprom is the world's biggest producer of natural gas. Established in 1992. Main areas of activities: • Onshore and offshore geological survey • Exploration and development well drilling • Gas, gas condensate and oil production, transportation and distribution • Underground gas storage • Gas exports • Gas usage as motor fuel • Research and development • Gas/gas condensate processing; production of liquid hydrocarbon, ethane, propane-butane, sulphur and helium.

RAO GAZPROM produces 94 per cent of gas in Russia. Russia's share in world gas exports reached 39.7% in 1995.

95

OVERSEAS UNION BANK

Overseas Union Bank (OUB) is a premier consumer bank in Singapore and a leading regional bank. The OUB Group's international network of 74 offices in 16 countries provides a full range of services in consumer and corporate finance, treasury, international and investment banking. Established in 1947, OUB is today the fourth largest Singapore bank and the fifth largest commercial bank in ASEAN. Its group shareholders's funds stand at S$2.94 billion and total assets amount to over S$28.47 billion (figures at 31 December 1995).

96

SOLVAY GROUP

A Passion for Progress - Solvay is an international Group of chemical and pharmaceutical companies with total sales amounting to USD 9.3 billion in 1995. Solvay operates in 44 countries, employing more than 38,000 employees spread across more than 400 establishments.

The strategy followed by Solvay is to be a world leader in its five sectors of activity - Alkalis, Peroxygens, Plastics, Processing and Health, to improve the quality and added value of its products and services through continuous and cost-effective innovation - while also opening new geographical markets for them, mainly in the USA, Asia and Central Europe.

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- 89. ☐ Most-Bank
- 90. ☐ PT Indocement Tunggal Prakarsa
- 91. ☐ The Rabobank Group
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INTERNATIONAL CAPITAL MARKETS

Euro 96 puts gilts FRN auction in the shade

By Antonia Sharpe in London and Lisa Bransten in New York

Apart from a successful auction of £3bn worth of floating-rate notes by the Bank of England, activity in the UK gilts market came to a virtual standstill yesterday ahead of the Euro 96 football semi-final between Germany and England.

Liffe had one of its slowest days this year, with a mere 14,000 contracts traded in the September long gilt future. Trading in several pits ceased for a few minutes at 2.30pm to allow dealers to sing the Euro 96 anthem.

"Traders are more interested in UK-Germany goal differentials rather than yield differentials today," said Ms Alison Cottrell, international economist at PaineWebber.

With the market focusing on football rather than fundamentals, gilts were little changed and even the auction became a sideshow, said Mr Simon Briscoe, UK economist at Nikko. The September long gilt future traded in a narrow range, ending down $\frac{1}{32}$ at 105¾.

The auction of five-year FRNs was covered 4.5 times, a healthy result reflecting the broader appeal of these instruments compared with conventional gilts. FRNs can be used in the money or repo markets, as well as in swaps-related transactions. Yesterday's offering was also bought by institutional investors seeking a home for their excess cash.

Mr Briscoe said the large cover on yesterday's auction would encourage the Bank to hold more FRN auctions in the months ahead. He added that this strategy would support the conventional gilts market because it would reduce the supply of such paper.

■ German bunds also traded in a narrow range ahead of today's Bundesbank council meeting, its last before the summer break. On Liffe, the September bund future eased 0.08 to 95.22 in turnover of just over 69,000 contracts.

Analysts do not expect any policy changes from the Bundesbank, in spite of better than

GOVERNMENT BONDS

expected inflation data for June, although some thought it might change the repo rate from fixed to variable.

PaineWebber's Ms Cottrell said that even if the Bundesbank were to switch to a variable rate, it was likely to keep the repo rate at 3.30 per cent.

In her view, the Bundesbank would resist lowering the repo rate until the third quarter, when such action would be needed to take the heat out of a rising D-Mark.

■ Italian bonds suffered a setback after comments by Mr Antonio Fazio, the Bank of Italy governor, that conditions for an interest rate cut have not yet been met. The September government bond future fell 0.21 to 116.48 in turnover of 27,715 contracts.

The market has been driven higher in recent months by optimism that lower inflation would trigger a cut in Italy's discount rate, which has been unchanged at 9 per cent for more than a year. Preliminary June data pointed to inflation falling to around 3.8 per cent but Mr Fazio indicated yesterday that a cut would not be forthcoming until the data were confirmed on July 5.

Mr Graham McDevitt, international bond strategist at Paribas, said Mr Fazio's comments had dashed hopes of an early cut of 75 basis points, and the market was now hoping for a more modest half-point cut.

Mr David Brown, chief European economist at Bear Stearns in London, said the reluctance to cut rates could be counter-productive as it could force the lira higher against the D-Mark. "There is a strong argument to cut rates sooner rather than later," he said.

However, he forecast that Italy's yield spread over Germany would continue to tighten over the coming weeks, to about 250 basis points from the current level of 285 points.

■ US Treasury prices were only modestly weaker in early afternoon trading despite new supply due from an afternoon auction and a stronger than expected report on durable goods orders in May.

Near midday, the benchmark 30-year Treasury was down $\frac{1}{8}$ at 87 to yield 7.045 per cent, while the two-year note was unchanged at 99$\frac{25}{32}$, yielding 6.284 per cent. The cash market was supported by gains on the futures market, with the September 30-year Treasury bond $\frac{3}{8}$ stronger at 107¾.

Prices dipped briefly in early trade after the Commerce Department said durable goods orders rose 3.3 per cent in May, much more than the 1.9 per cent increase most economists had expected. Most of the rise was attributed to a jump in aircraft orders, and some economists said that excluding aircraft, the figures showed the economy to be growing relatively modestly.

Later in the afternoon, the Treasury Department was due to announce the results of its auction of $12.5bn in five-year paper.

Hopes of political stability lift prices of Russian debt

By Richard Lapper, Capital Markets Editor

Prices of Russian debt traded on the secondary market rose further yesterday, amid optimism about the prospects for political stability ahead of next week's presidential elections.

Dollar-denominated Vneshekonombank debt, the most widely traded Russian paper, fell marginally, but at a bid

EMERGING MARKET BONDS

price of 49.125 it is almost 20 per cent higher than immediately before the first round of the election earlier this month.

Meanwhile, DM-denominated Vneshekonombank debt rose by 0.625 in London yesterday, lifting the price for buyers to 53.875, while MinFin bonds, which have risen by less than Vneshekonombank debt in the last few weeks, also rose sharply, with one tranche of the bonds, which matures in 2003, gaining more than a cent to 46.625 by mid-afternoon.

Dealers in London reported a big increase in volume, with emerging market funds, hedge funds and investment banks all active buyers.

Mr Robin Hubbard, senior economist at Chase Manhattan, expects yields on dollar-denominated Vneshekonombank to fall by around 100 basis points from their present levels of 17 per cent.

"There was a lot of uncertainty about what would happen in Russia. As this eased following Mr Yeltsin's victory in the first round, it became clear that Vnesh debt was an undervalued asset," he said.

Enthusiasm over Mr Yeltsin's political prospects also appeared to buoy investor sentiment towards other emerging market debt yesterday.

By late afternoon, the West Merchant Bank emerging country debt index (which includes dollar-denominated Vneshekonombank debt but not MinFin bonds) had risen by 0.5 per cent to reach 147.18.

The average stripped spread of Brady bonds over Treasuries (the yield on the Brady bond price less the price of the zero-coupon Treasury which provides its collateral) had narrowed from 781 basis points at the end of May to 761 basis points, its lowest level since December 1994.

Mr Peter West, economic adviser at West Merchant Bank, said that it was "difficult to avoid the impression that the Yeltsin factor was having a positive impact on sentiment towards the merging markets."

In addition, he pointed out that Peru, yesterday's strongest performer, has been helped by the buying activity during the country's roadshow this week to promote its Brady bond deal. The prices of Peruvian debt rose by 2.2 per cent yesterday.

The roadshow will visit London today and New York tomorrow. Dealing in existing Peruvian loans will cease on July 1 and banks have until the end of July to decide how to allocate their debt under the options offered by the Brady deal. The bonds are likely to be issued in the fourth quarter and will trade on "a when and if issued" basis until then.

More generally, Mr West said the Brady market had been helped by the relative calm in the US Treasury market.

"It would seem that every time US Treasuries exhibit some stability, the demand for high yielding assets is strong enough to reassert itself. As before, improving fundamentals are attracting investment flows to the emerging markets," he said.

China makes a successful comeback with $700m offer

By Conner Middelmann

The People's Republic of China made a successful comeback to the international bond market with a $700m offering of five-year bonds, although it disappointed market participants who had hoped for an even larger issue.

The transaction rehabilitates China's standing in the global bond sector after its less than successful $1bn 10-year global debut in February 1994. That issue's 85 basis point launch spread over Treasuries nearly doubled before narrowing back to current levels of around 95 basis points.

Positive economic fundamentals – including falling inflation, strong growth, and a low debt-to-GDP ratio – and investors' perception of easing political risks have lifted the performance of outstanding bonds and fuelled demand for China's latest offering.

The bulk of the issue was being placed among European and Asian institutions, including central banks, pension funds and insurance companies, bankers said.

INTERNATIONAL BONDS

"Investors have been all over us for the past two days trying to get some paper," one dealer said.

The bonds are to be priced today at a yield spread of between 80 and 83 basis points over Treasuries – probably at the tighter end of that range – which was widely deemed as fair. Talk of a simultaneous 10-year tranche did not come to fruition, in part because most international investors have been shunning 10-year dollar paper in recent months. CS First Boston and Morgan Stanley are joint bookrunners.

The rest of the eurobond market was relatively subdued, with last night's Euro 96 football semi-final between England and Germany foremost on many dealers' minds.

"I am surrounded by England flags and people with painted faces," said one London syndicate official. "Everyone's leaving the office early to catch the game."

Football fever notwithstanding, a $300m 2¼-year offering for the US subsidiary of German carmaker BMW got away smoothly and held up better than many of the recent short-dated corporate issues with December maturities.

At the close, the re-offer spread was unchanged at 22 basis points over Treasuries.

Joint leads Goldman Sachs and Dresdner Bank said the bonds were sold mainly to continental European retail investors, but also to institutions betting on a strong spread performance thanks to the retail demand.

Another corporate issuer of retail-targeted short dollar paper was Mobil Australia, the subsidiary of the US oil company. It launched a $200m issue of two-year notes priced to yield 2 basis points over Treasuries, which was considered too tight by most dealers. Indeed, the spread widened to 7 basis points over on the bid price.

"To generate arbitrage transactions you have to bring them at a tight spread," said a syndicate official at lead SBC Warburg. "The spread has widened out but it will come back again, as it has done with many similar deals," he added.

Primary activity is likely to be subdued today due to a London Underground strike which will prevent many dealers from getting to their desks on time.

Nevertheless, National Power, the UK power utility, is set to issue $300m of five-year bonds priced in the high 30s to 40 basis points over Treasuries via J.P. Morgan and UBS.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Peoples Republic of China	700	(a)¶	(a)R	Jul 2001	0.35R	(a)(¶¶ 5yr)	CSFB/Morgan Stanley
Captive Finance, Al-Hilal‡	255	(b1)	(b1)	Dec 2001	0.20	-	Citibank International
BMW US Capital Corp(b)	200	5.75	99.932R	Dec 1998	0.225R	+22(5¾%-98)	Dresdner/Goldman Sachs
Mobil Australia Finance	200	6.375	99.933R	Jul 1998	0.15R	+2(6¾%-98)	SBC Warburg
Sofrete Industrial	100	11.375#	99.616R	Jul 1999	0.875R	+605(6⅞%-99)	JP Morgan Securities
D-MARKS							
Credit Nationale	500	(c)	99.92R	Jul 2001	0.15R	-	Dresdner Bank-KB
Stadtsparkasse Koeln	300	6.75	101.377	Jul 2006	2.50	-	Westdeutsche Landesbank
AUSTRALIAN DOLLARS							
Deutsche Bank Australia(d)	150	8.50	101.272	Aug 2000	1.75	-	Deutsche Morgan Grenfell
World Bank	100	8.25	101.36	Jul 2000	1.75	-	Toronto Dominion Bank
PESETAS							
European Investment Bank	10bn	7.40	100.92	Jul 1999	1.25	-	Banco Bilbao Vizcaya

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. # Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Priced today. b) 3 similar tranches of $85m. Legal maturity: 15/6/09. b1) Priced later: 3-mth Libor +55-60bp. b2) Subordinated tranche was privately placed. c) 3-mth Libor +12½bp. § Long 1st coupon. d) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	108.9690	-0.205	8.83	8.84	8.88
Austria		6.250	05/06	97.0700	-0.020	6.66	6.59	6.43
Belgium		7.000	05/06	101.3900	-0.010	6.80	6.87	6.69
Canada *		7.000	12/06	94.3400	+0.120	7.77	7.88	7.88
Denmark		8.000	03/06	102.7400	+0.240	7.44	7.58	7.34
France	BTAN	5.750	03/01	100.3600	+0.110	5.65	5.74	5.56
	OAT	7.250	04/06	104.7500	+0.010	6.57	6.63	6.46
Germany Bund		6.250	04/06	97.7600	+0.050	6.56	6.65	6.41
Ireland		8.000	08/06	102.0500	+0.220	7.69	7.83	7.59
Italy		9.500	02/06	101.6000	-0.140	9.24†	9.37	9.44
Japan	No 140	6.600	06/01	118.9737	+0.017	2.34	2.32	2.41
	No 182	3.000	09/05	98.1235	+0.035	3.27	3.24	3.30
Netherlands		6.000	01/06	95.6200	+0.040	6.45	6.57	6.28
Portugal		11.875	02/05	118.0000	-0.500	8.79	8.94	9.01
Spain		8.800	04/06	99.3700	+0.180	8.91	9.11	9.16
Sweden		6.000	02/05	86.7914	+0.222	8.19	8.40	8.39
UK Gilts		8.000	12/00	102-26	+2/32	7.24	7.37	7.35
		7.500	12/06	95-19	+2/32	7.86	8.10	7.98
		9.000	10/08	105-28	+2/32	7.98	8.12	8.10
US Treasury *		6.875	05/06	99-29	+4/32	6.89	6.96	6.65
		6.000	02/26	87-07	+10/32	7.03	7.11	6.86
ECU (French Govt)		7.500	04/05	103.4700	+0.110	6.96	7.06	6.89

London closing, *New York mid-day. Yields: Local market standard. † Gross (including withholding tax at 12.5 per cent payable by nonresidents). Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.30
Prime rate	8¼	Two month	-	Three year	6.48
Broker loan rate	7	Three month	5.24	Five year	6.69
Fed.funds	5$\frac{3}{16}$	Six month	5.45	10-year	6.93
Fed.funds at intervention	-	One year	5.82	30-year	7.05

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	121.36	121.36	+0.08	121.42	121.34	5,148	153,214
Dec	120.06	120.04	+0.08	120.04	120.04	580	18,903
Mar	119.90	119.88	+0.06	119.94	119.82	691	741

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jul	Calls Aug	Calls Sep	Puts Jul	Puts Aug	Puts Sep
120	-	-	-	-	0.19	0.45
121	0.38	0.78	1.08	0.04	[illegible]	0.75
122	0.01	0.26	0.59	-	-	-
123	-	0.07	0.25	-	-	-
124	-	-	0.09	-	-	-

Est. vol. total, Calls 8,459 Puts 9,403 . Previous day's open int., Calls 134,881 Puts 142,132.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.36	95.35	+0.05	95.40	95.14	94622	197559
Dec	94.44	94.45	+0.07	94.44	94.29	195	1806

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
9500	0.69	0.95	0.68	0.97	0.34	0.60	1.23	1.52
9550	0.40	0.66	0.49	0.75	0.65	0.81	1.54	1.80
9600	0.20	0.44	0.34	0.58	0.85	1.09	1.89	2.13

Est. vol. total, Calls 10742 Puts 9089. Previous day's open int., Calls 124980 Puts 141509

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	116.75	116.71	+0.02	116.75	116.27	34374	57901
Dec	116.00	115.96	-0.03	116.00	115.80	240	292

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
11650	1.43	1.86	1.22	2.40
11700	1.16	1.63	1.45	2.67
11750	0.94	1.40	1.73	2.94

Est. vol. total, Calls 1002 Puts 3860. Previous day's open int., Calls 67863 Puts 57092

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	100.15	100.37	+0.24	100.44	99.86	67,541	62,066

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	106-30	106-27	-0-01	106-30	106-29	433	8850
Sep	105-26	105-31	+0-06	106-01	105-20	21773	112376

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
105	1-19	1-40	1-21	1-53	0-21	0-42	1-23	1-55
106	0-42	1-02	0-57	1-24	0-44	1-04	1-58	2-26
107	0-17	0-37	0-37	1-01	1-19	1-39	2-39	3-03

Est. vol. total, Calls 2011 Puts 1320. Previous day's open int., Calls 18805 Puts 18805

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	90.64	90.72	+0.12	90.72	90.58	2,802	6,157

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	107-20	107-21	+0-02	107-24	107-07	285,980	421,865
Dec	107-08	107-04	+0-02	107-08	106-24	443	15,968
Mar	-	106-22	-	106-23	106-18	459	2,485

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	118.57			118.61	118.55	1052	n/a
Dec	117.57			117.57	117.57	280	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Jun 26	Day's change %	Tue Jun 25	Accrued interest	xd adj. ytd		Low coupon yield Jun 26	Jun 25	Yr. ago	Medium coupon yield Jun 26	Jun 25	Yr. ago	High coupon yield Jun 26	Jun 25	Yr. ago
1 Up to 5 years (22)	122.31	0.04	122.26	2.64	4.26	5 yrs	7.38	[illegible]	8.23	7.42	[illegible]	8.24	7.50	7.51	8.30
2 5-15 years (19)	145.96	0.14	145.86	2.26	5.64	15 yrs	[illegible]	[illegible]	8.48	8.20	8.22	8.50	8.28	8.28	[illegible]
3 Over 15 years (9)	160.61	0.21	160.27	3.16	5.43	20 yrs	8.26	8.28	8.48	8.27	8.29	8.51	8.34	[illegible]	8.60
4 Irredeemables (6)	181.53	-0.17	181.08	2.03	6.36	Irred.†	8.34	8.32	8.48						
5 All stocks (56)	141.63	0.11	141.47	2.69	5.15										

Index-linked	Wed Jun 26	Day's change %	Tue Jun 25	Accrued interest	xd adj. ytd		Inflation 5% Jun 26	Jun 25	Yr. ago	Inflation 10% Jun 26	Jun 25	Yr. ago
6 Up to 5 years (1)	197.79	0.04	197.71	1.49	4.43	Up to 5 yrs	2.69	2.70	3.57	1.16	1.16	1.92
7 Over 5 years (11)	186.20	0.05	186.80	1.81	5.11	Over 5 yrs	3.83	3.83	3.76	3.81	3.82	3.56
8 All stocks (12)	185.82	0.05	185.72	1.88	1.88							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jun 26	Jun 25	Jun 24	Jun 21	Jun 20	Yr ago	High*	Low*
Govt. Secs. (UK)	92.62	92.52	92.49	92.32	92.00	91.98	96.34	91.58
Fixed Interest	111.95	111.90	111.91	111.49	111.42	110.89	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Jun 25	Jun 24	Jun 21	Jun 20	Jun 19
Gilt Edged bargains	87.6	86.2	89.5	75.6	77.2
5-day average	75.3	76.1	73.6	77.5	77.5

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7/10 pm on June 26

	Issued	Bid	Offer	Chg.	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Sections: U.S. DOLLAR STRAIGHTS; SWISS FRANC STRAIGHTS; YEN STRAIGHTS; OTHER STRAIGHTS; DEUTSCHE MARK STRAIGHTS; FLOATING RATE NOTES; CONVERTIBLE BONDS

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or –	1996 High	1996 Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Sections: Shorts (Lives up to Five Years); Five to Fifteen Years; Over Fifteen Years; Undated; Index-Linked; Other Fixed Interest

CURRENCIES AND MONEY

MARKETS REPORT

Oil concerns push dollar towards key Y110 level

By Philip Gawith

The dollar yesterday made a tentative further push towards Y110, helped by the fallout from the Gulf oil blast which was seen as being potentially damaging to leading oil importers like Japan.

With the G-7 summit close at hand, as well as important policy meetings in the form of the Bundesbank council gathering today, as well as the Bank of Japan branch managers and FOMC meetings next week, there was little appetite to make a decisive push at an important level.

As a result, the dollar retreated from the fresh high of Y109.70 to close in London at Y109.52. Against the D-Mark, though, it closed lower at DM1.5287, from DM1.5322 as the D-Mark made progress against the weaker yen.

On a day when Londoners found it difficult to think of much else beside the football match against old rivals Germany, the pound finished slightly weaker against the D-Mark at DM2.3579, from DM2.3609. Against the dollar it closed at $1.5425, from $1.5409.

Elsewhere in Europe the lira retreated from the L1,000 level to finish at L1,004 against the D-Mark from L1,002. Mr Antonio Fazio, the central bank governor, sounded a cautious note about the prospect of a cut in interest rates.

■ Ahead of the big match last night there was little London traders could do save hope that their team did a better job of standing up to the Germans than the pound has managed against the D-Mark over the past thirty years.

Traders said the summer spirit was alive and well in the dealing room if not in the price action. Mr Kit Juckes, currency strategist at NatWest Markets in London, said: "Football is on everybody's mind, but there is not much you can do in the way of price action except buy tickets."

Mr John Wareham, head of foreign exchange marketing at Merrill Lynch in London, said that there was "serious evidence that the currency of a country hosting a large international sporting event appreciates in the run-up up to the competition." There is less evidence of any correlation in the joyous or tearful aftermath.

■ One of the key factors behind the dollar's stronger performance against the yen lay in the weak Japanese car export figures, which fell by 12 per cent in the 12 months to May.

Mr Juckes said the figures suggested that Japanese car manufacturers would be exporting fewer vehicles to the US, even if the yen weakened further. He said the view that the Japanese were anxious to avoid aggravating the trade dispute gave confidence that the dollar would be able to "ratchet" up slowly against the yen.

Aside from the stronger tone against the yen, the dollar remained largely range-bound. Mr Wareham said this was likely to continue up until the G-7 meeting. With so little else to focus on, he said the market was devoting intense scrutiny to the G-7 meeting. Some recent utterances from various Bundesbank officials, however, have introduced the possibility that the summit may stop short of providing its normal words of support for the dollar.

"The Bundesbank has started to give slightly veiled hints that the D-Mark has finished weakening," he said. "The depreciation of the D-Mark might just have run its course." One possible reason why the D-Mark has been more stable recently may lie with the central banks. There have been numerous rumours of European central banks buying D-Marks in recent months, possibly in order to bolster their reserves which in many cases were depleted during the 1992/3 exchange rate turbulence.

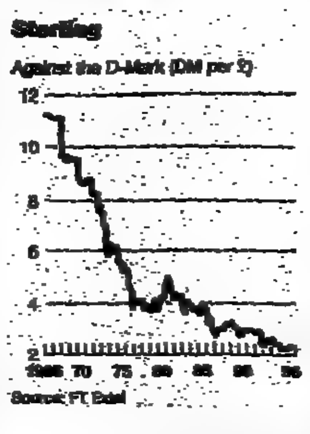
One New York based hedge fund analyst said: "I think the central banks are managing more than we think. They are doing a better job of managing – of slowing down the volatility. They are tempering the moves on both sides and I think that is relatively new."

Mr Wareham said the fact that the US, Germany and Japan were all believed to be happy with current exchange rates provided a reason for thinking that the G-7 might stay away from currencies altogether. According to this reasoning, saying nothing would offer fewer hostages to fortune than words which could be misinterpreted.

A British official was quoted by Reuters saying that the Lyon summit would have "nothing exciting" to say about currencies.

Sterling

Against the D-Mark (DM per £)



Source: FT Extel

■ Pound in New York

Jun 26	— Latest —	— Prev. close —
£ spot	1.5410	1.5410
1 mth	1.5406	1.5405
3 mth	1.5403	1.5403
1 yr	1.5425	1.5423

■ OTHER CURRENCIES

Jun 26	£	$
Czech Kr.	42.[illegible] - 42.[illegible]	27.[illegible] - 27.[illegible]
Hungary	232.194 - 232.422	150.580 - 150.630
Iran	4629.00 - 4626.00	3000.00 - 3000.00
Kuwait	0.4623 - 0.4629	0.2998 - 0.3000
Poland	4.1850 - 4.1923	2.7140 - 2.7170
Russia	7895.40 - 7955.87	[illegible] - 5097.00
U.A.E.	5.6628 - 5.6671	3.6724 - 3.6729

POUND SPOT FORWARD AGAINST THE POUND

Jun 26		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.5849	-0.0208	651 - 047	16.6245	16.5[illegible]	16.5636	2.3	16.4888	2.6	-	-	104.7
Belgium	(BFr)	48.5088	-0.0714	[illegible] - 351	48.6000	48.3980	48.4136	2.4	48.2236	2.4	47.4236	2.2	108.4
Denmark	(DKr)	9.0846	-0.006	793 - [illegible]	9.0899	9.0582	9.0709	1.6	9.0505	1.5	8.9427	1.6	107.1
Finland	(FM)	7.1527	-0.011	445 - [illegible]	7.1610	7.1270	7.1483	0.7	7.1402	0.7	-	-	84.0
France	(FFr)	7.9772	-0.0[illegible]	732 - 812	7.9878	7.9588	7.9649	1.8	7.9422	1.8	7.8468	1.6	109.0
Germany	(DM)	2.3579	-0.003	565 - 592	2.3607	2.3524	2.3535	2.3	2.3444	2.3	2.3056	2.2	108.1
Greece	(Dr)	373.054	-0.383	701 - 406	375.339	371.995	-	-	-	-	-	-	67.3
Ireland	(I£)	0.9729	-0.0015	722 - 735	0.9750	0.9720	0.9724	0.6	0.9712	0.7	0.9667	0.6	99.4
Italy	(L)	2367.82	+3.12	589 - 974	2369.98	2359.55	2378.37	-2.5	2383.22	-2.6	2415.72	-2.0	77.0
Luxembourg	(LFr)	48.5086	-0.0714	820 - 351	48.6000	48.3980	48.4136	2.4	48.2236	2.4	47.4236	2.2	108.4
Netherlands	(Fl)	2.6434	-0.0027	418 - 450	2.6529	2.6369	2.6373	2.8	2.6254	2.7	2.5776	2.5	106.5
Norway	(NKr)	10.0719	-0.0057	628 - 809	10.0895	10.0080	10.0634	1.0	10.0464	1.0	9.9629	1.1	98.3
Portugal	(Es)	242.250	-0.211	094 - 405	243.755	241.857	242.675	-2.1	243.58	-2.2	-	-	94.8
Spain	(Pta)	198.250	-0.31	147 - 369	198.443	198.080	198.51	-1.6	199.025	-1.6	200.425	-1.1	80.5
Sweden	(SKr)	10.1976	-0.0177	[illegible] - 066	10.2104	10.1865	10.1979	0.0	10.198	0.0	10.1959	0.0	90.9
Switzerland	(SFr)	1.9428	-0.0043	414 - 442	1.9448	1.9377	1.9378	3.1	1.927	3.3	1.8788	3.3	110.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	85.9
Ecu	-	1.2448	-0.0012	441 - 455	1.2463	1.2435	1.2435	1.3	1.2405	1.4	1.2271	1.4	-
SDR†	-	1.070200	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5404	+0.0016	397 - 410	1.5427	1.5397	-	-	-	-	-	-	-
Brazil	(R$)	1.5486	+0.0034	479 - 493	1.5495	1.5440	-	-	-	-	-	-	-
Canada	(C$)	2.0982	+0.0036	971 - 993	2.0997	2.0929	2.0975	0.4	2.0966	0.3	2.0857	0.6	84.6
Mexico	(New Peso)	11.7346	+0.0091	268 - 422	11.7425	11.7078	-	-	-	-	-	-	-
USA	($)	1.5426	+0.0016	420 - 430	1.5432	1.5395	1.5421	0.3	1.5417	0.2	1.5439	-0.1	87.2
Pacific/Middle East/Africa													
Australia	(A$)	1.9502	+0.0022	489 - 514	1.9520	1.9418	1.9527	-1.6	1.9578	-1.6	1.999	-1.7	93.8
Hong Kong	(HK$)	11.9370	+0.0127	323 - 416	11.9427	11.9150	11.9269	0.8	11.9173	0.7	11.8975	0.3	-
India	(Rs)	53.8334	+0.06[illegible]	074 - 593	54.7820	53.4740	-	-	-	-	-	-	-
Israel	(Shk)	4.9559	-0.0246	497 - 621	5.0234	4.9315	-	-	-	-	-	-	-
Japan	(Y)	168.935	+0.846	816 - 051	169.060	167.570	168.21	5.1	166.72	5.2	160.305	5.1	133.7
Malaysia	(M$)	3.8506	-0.0001	485 - 526	3.8527	3.8434	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2619	-0.0029	603 - 636	2.2670	2.2567	2.2669	-2.7	2.2769	-2.6	2.3102	-2.1	107.5
Philippines	(Peso)	40.3904	+0.0419	233 - 575	40.4657	40.3147	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7859	+0.0061	831 - 875	5.7880	5.7748	-	-	-	-	-	-	-
Singapore	(S$)	2.1770	+0.0036	755 - 784	2.1785	2.1732	-	-	-	-	-	-	-
South Africa	(R)	6.6875	-0.0193	815 - 935	6.7096	6.6706	-	-	-	-	-	-	-
South Korea	(Won)	1247.42	-2.02	698 - 785	1250.10	1245.15	-	-	-	-	-	-	-
Taiwan	(T$)	42.6340	+0.0005	163 - 516	42.6559	42.5549	-	-	-	-	-	-	-
Thailand	(Bt)	39.1410	+0.0661	129 - 691	39.1690	39.0730	-	-	-	-	-	-	-

† Rates for Jun 24. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 26		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	10.7586	-0.0247	559 - 613	10.7820	10.7450	10.7567	2.2	10.697	2.3	10.5135	2.3	104.5
Belgium	(BFr)	31.4480	-0.079	410 - 550	31.5780	31.3970	31.4535	2.1	31.278	2.2	30.798	2.3	106.1
Denmark	(DKr)	5.8895	-0.01	880 - 910	5.8986	5.8782	5.8885	1.5	5.865	1.7	5.798	1.6	106.5
Finland	(FM)	4.6371	-0.012	333 - 406	4.6479	4.6207	4.6376	1.7	4.6186	1.6	4.5731	1.4	83.3
France	(FFr)	5.1716	-0.02	707 - 725	5.1945	5.1820	5.1809	1.6	5.1504	1.6	5.0826	1.7	108.2
Germany	(DM)	1.5287	-0.0035	285 - 290	1.5320	1.5268	1.529	2.0	1.5204	2.2	1.4922	2.4	107.4
Greece	(Dr)	241.850	-0.5	700 - 000	243.600	241.320	243.795	-8.3	246.875	-8.3	260.65	-7.9	66.8
Ireland	(I£)	1.5856	+0.0041	850 - 861	1.5[illegible]	1.5797	1.5837	-0.4	1.5[illegible]	-0.4	1.5785	0.4	-
Italy	(L)	1535.05	+0.42	430 - 580	1538.45	1529.00	1545.41	-3.7	1547.95	-3.4	1570.7	-2.3	76.6
Luxembourg	(LFr)	31.4480	-0.079	410 - 550	31.5780	31.3970	31.4555	2.0	31.2985	2.0	30.808	2.0	106.1
Netherlands	(Fl)	1.7137	-0.0035	132 - 142	1.7204	1.7108	1.7131	0.5	1.7032	2.4	1.6715	2.5	106.0
Norway	(NKr)	6.5296	-0.0105	258 - 338	6.5423	6.4945	6.5428	0.5	6.5211	0.5	6.4846	0.7	97.7
Portugal	(Es)	157.050	-0.3	000 - 100	158.200	156.930	157.565	-3.4	157.955	-2.3	160.1	-1.9	94.6
Spain	(Pta)	128.525	-0.335	500 - 550	128.780	128.500	129.05	-2.3	129.205	-2.1	130.745	-1.7	80.1
Sweden	(SKr)	6.6111	-0.0183	061 - 161	6.6299	6.6042	6.6613	-2.0	6.6396	-1.7	6.6816	-1.1	90.2
Switzerland	(SFr)	1.2595	-0.0041	590 - 600	1.2619	1.2570	1.26	3.4	1.2485	3.5	1.216	3.5	109.7
UK	(£)	1.5425	+0.0016	420 - 430	1.5432	1.5395	1.5405	0.3	1.5417	0.2	1.5479	-0.4	85.6
Ecu	-	1.2392	+0.0084	389 - 395	1.2408	1.2357	1.2[illegible]	-0.7	1.2416	-0.8	1.2506	-0.9	-
SDR†	-	0.69360	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9985	-	985 - 987	1.0001	0.9984	-	-	-	-	-	-	-
Brazil	(R$)	1.0040	+0.0012	039 - 041	1.0043	1.0032	-	-	-	-	-	-	-
Canada	(C$)	1.3603	+0.0009	600 - 605	1.3615	1.3581	1.3601	0.1	1.3604	0.0	1.3632	-0.2	84.1
Mexico	(New Peso)	7.6075	-0.002	050 - 100	7.6100	7.6060	7.769	-25.5	7.954	-18.2	9.7175	-27.7	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.9
Pacific/Middle East/Africa													
Australia	(A$)	1.2642	+0.0001	538 - 547	1.2549	1.2515	1.2562	-1.9	1.2597	-1.7	1.2684	-1.6	95.0
Hong Kong	(HK$)	7.7387	+0.0002	382 - 392	7.7[illegible]	7.7380	7.7394	-0.1	7.7412	-0.1	7.7682	-0.4	-
India	(Rs)	34.9000	-	000 - 000	35.5000	34.6300	35.05	-5.2	35.365	-5.2	36.835	-5.5	-
Israel	(Shk)	3.2129	-0.0193	098 - 159	3.2609	3.2008	-	-	-	-	-	-	-
Japan	(Y)	109.520	+0.435	460 - 580	109.720	108.900	109.075	4.9	108.175	4.9	104.435	4.6	134.7
Malaysia	(M$)	2.4963	-0.0027	958 - 968	2.4969	2.4955	2.4972	-0.4	2.5033	-1.1	2.5[illegible]	-1.2	-
New Zealand	(NZ$)	1.4663	-0.0075	629 - 589	1.4670	1.4646	1.4694	-2.5	1.4752	-2.4	1.4996	-2.3	-
Philippines	(Peso)	26.1850	-	500 - 200	26.2200	26.1500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	+0.0001	504 - 508	3.7508	3.7504	3.751	-0.1	3.7517	-0.1	3.7551	-0.1	-
Singapore	(S$)	1.4113	+0.0008	108 - 118	1.4118	1.4104	1.4078	3.0	1.4018	2.7	1.3765	2.5	-
South Africa	(R)	4.3365	-0.017	330 - 380	4.3500	4.2290	4.3[illegible]	-13.1	4.473	-12.7	4.8105	-11.0	-
South Korea	(Won)	808.700	-2.15	600 - 800	810.000	808.500	-	-	-	-	-	-	-
Taiwan	(T$)	27.8395	-0.0285	370 - 420	27.8550	27.8380	27.8445	-0.2	27.8495	-0.1	-	-	-
Thailand	(Bt)	25.3750	+0.0165	650 - 850	25.3950	25.3500	25.4737	-4.7	25.6775	-4.8	25.56	-4.7	-

† SDR rate per $ for Jun 24. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 24: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

June 26	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
[illegible]								

EURO CURRENCY INTEREST RATES

Jun 26	Short term	7 days notice	One month	Three months	Six months	One year
[illegible]						

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

June 26	BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
[illegible]																	

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

UK INTEREST RATES

LONDON MONEY RATES

Jun 26	Over-night	7 days notice	One month	Three months	Six months	One year
[illegible]						

BASE LENDING RATES

[illegible]	

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER FINANCIAL - Cont.

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Total, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR "Headline Earnings" formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

[illegible]

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda

Jupiter Tyndall (Bermuda) Ltd
PO Box HM 1258, Hamilton, Bermuda 001 809 292 2780

Newport Investment Management

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Sarasin Funds Mngmt (Guernsey) Ltd
PO Box 246, St Peter Port, Guernsey

Schroder Investment Mngmt (Guernsey) Ltd
PO Box 258, St Peter Port, Guernsey

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Atlantis Fund Management (Guernsey) Ltd

BZW Asset Management Guernsey Ltd

Bachmann Global Investment Fund Ltd

CIBC Fund Managers (Guernsey) Ltd

Castle Management (Guernsey) Ltd

LGT Asset Management Ltd

Dragon Korea Fund Plc

Mercury Fund Managers Intl Ltd

Lloyds Private Banking (CI) Ltd

Fidelity Funds - Contd.

Schroder International Selection Fd - Contd.

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

JERSEY (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

LONDON STOCK EXCHANGE

MARKET REPORT

Footsie bounce masks weakness at lower levels

By Peter John

London appeared to shrug off the "Sell in May" curse that had dragged the FT-SE 100 index down 80 points over six straight trading days.

But a rebound in the Footsie yesterday masked a slide in the second-line index. And the future, which has led much of the recent selling, was still trading at a discount to the underlying cash market.

Consequently, some technical analysts who have a bullish view on the market were beginning to look nervously at their computer models.

And many dealers remained sceptical that there was much to go for in the near term. Most had already cut their prices and were merely hoping that the Footsie futures contract was not going to fall much further.

Their wishes were only partly granted. The future did bounce but still continued to be priced at a discount to cash.

However, there was a lift from a few individual items of corporate news. Tomkins, the conglomerate, announced that it had received approval in the US for its proposed acquisition of Gates Rubber.

And there was also relief that the extremely heavy trade in National Grid late on Tuesday night may have represented nothing more daunting than a tax-related deal.

The other side of this so-called "bed and breakfast" trade appeared on the trading screens first thing yesterday and was responsible for 12 per cent of yesterday's turnover of 745.3m shares. That figure was well down from Tuesday's level when genuine customer business was worth £1.85bn.

Lower down the league of quoted companies the news was less encouraging. A profits warning from Danka Business Systems came hard on the heels of Tuesday's suspension of trading in Wickes, the DIY chain.

Danka's announcement continued the perceived shift from earnings upgrades to downgrades and was partly responsible for the FT-SE Mid 250 index falling 19.2 to 4,365.3. The Mid 250 has outperformed the Footsie by 10 percentage points since the start of the year.

Some attention was taken away from equities by the latest UK government bond auction, which was covered 4.5 times and described by one trader as "the most successful ever".

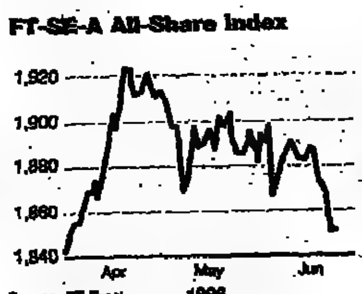
And in the US there was a return of inflationary concern after the Commerce Department announced that orders for durable goods rose by 3.3 per cent in May, the largest increase for almost a year.

With the Dow Jones Industrial Average down by about 10 points when London closed, the FT-SE 100 ended 16.0 up at 3,695.5, back towards the bottom of its recent trading range which is seen to be between 3,650 and 3,850.

Mr Robin Griffiths, chief technical analyst at HSBC James Capel, said his forecasts had been "temporarily embarrassed by the plunge below 3,700". But he believes there is no reason for concern as long as the Footsie holds above 3,650.

"This is actually a cheap market well underwritten by fundamentals. We know the cliché about selling in May and going away, but unfortunately we forget it every year," he said.

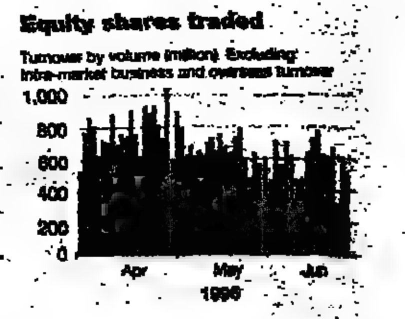
FT-SE-A All-Share Index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3695.5	+16.0	FT Ordinary index	2720.7	+6.6
FT-SE Mid 250	4365.3	-19.2	FT-SE-A Non Fins p/e	16.73	16.70
FT-SE-A 350	1866.0	+4.5	FT-SE100 Fut Jul	3685.0	+10.0
FT-SE-A All-Share	1853.24	+3.69	10 yr Gilt yield	7.96	7.98
FT-SE-A All-Share yield	3.87	3.88	Long gilt/equity yld ratio:	2.16	2.15

Best performing sectors
1 Diversified Industrials +1.7
2 Alcoholic Beverages +1.2
3 Oil, Integrated +0.9
4 Pharmaceuticals +0.8
5 Insurance +0.8

Worst performing sectors
1 Electronic & Elect Equip -3.0
2 Health Care -1.3
3 Building & Construction -1.1
4 Extractive Industries -0.8
5 Engineering: Vehicles -0.6

Broker move hits S&N

A profits downgrade hit health care group **Smith & Nephew**, sending the shares lower.

The stock lost more than 4 per cent of its value after falling 8¾ to 200¼p, the worst performer in the Footsie. Volume by the end of the session stood at 6.5m shares.

ABN Amro Hoare Govett downgraded the current year profits estimate by 3 per cent to £189m and the following year's by 4 per cent to £201m.

Analysts at the securities house said the move was because "growth in Smith & Nephew's US businesses has been slower than we had anticipated, being around 1 per cent rather than 3 to 4 per cent".

They said they expected weakness in the share price in the short term but believe the stock to be undervalued for the long term, "because of the value that resides within the research pipeline".

Tomkins rebounds

Leading conglomerate Tomkins was the best Footsie performer in heavy volume as brokers upgraded earnings forecasts following regulatory approval for the Gates Rubber deal.

"The sense of relief is almost overwhelming, and the robust trading statement from Gates is an added bonus," said one analyst.

Shares in Tomkins have been weak since early May, sliding from 280p on concern about the takeover of Gates, a privately owned US group. Yesterday they jumped 13 to 249p in volume of 12m.

Gates' sales, hit by the strike at big customer General Motors, have been flat. But the company claims a better mix of business and improving margins. Some brokers predict strong profits gains at Gates next year.

Kleinwort Benson lifted its profits estimates by 15 per cent. The broker has moved its forecast up by £58m to £410m for this year. This translates into a 2 per cent increase at the earnings per share level.

Builders weak

Construction shares moved against the trend, with housebuilders in particular showing clear weakness.

The announcement that Costain was to miss its results deadline cast a shadow over building issues, but in general brokers could pinpoint no obvious reason for the downturn.

There was talk of marketmakers tightening their positions in the sector ahead of the summer slowdown in trading. There were also signs of profit-taking after the recent uptick following good news on mortgage demand and house prices.

Wilson (Connolly) came off 6 to 168p, **Redrow Group** shed 4 to 132p and **George Wimpey** fell 4 to 150p. **Barratt Developments** gave up 6 to 256p.

Costain stopped trading at 39p (down 31) after the company requested a suspension in the face of heavy selling.

National Grid was once again the busiest trade of the day. Volume at the close was 89m as the shares edged forward to 171p. While several market watchers pointed to tax-related trading as a possible reason for the heavy volume on both Tuesday and Wednesday, one analyst suggested it might have been an agency cross.

Reuters advanced 14 to 778p in trade of 3.4m. The company has been seeing brokers ahead of interim figures due next month.

Satellite broadcaster **BSkyB** was one of the day's best Footsie performers after SBC Warburg upgraded the stock from "add" to "buy".

The shares gained 12 to 434p, with the broker said to be particularly positive on the impact of the move from analogue to digital technology. An agency cross was said to have been carried out in the stock at 430p, which contributed to the day's volume of 3.4m shares.

The recent bid talk among several stocks in the television sector was nowhere in sight yesterday. **HTV** was left drifting 19 lower to 325p, while **Scottish Television** retreated 15 to 663p.

British Biotech remained a market favourite in spite of announcing a £143.4m rights issue and a nine-for-one capitalisation issue at the same time as the release of its full-year results. The shares lost a mere 5 to 2375p.

English China Clays fell 11 to 265p in trade of 2m after SBC Warburg cut profits estimates for the company. The broker is said to have reduced its current year forecast by £23m to £67m.

British Airways, a dull market lately on worries that its planned marketing link with American Airlines could be foiled by the competition authorities, bounced 6 to 553p.

Brokers cited next Wednesday's traffic figures for June. These are expected to show a good seasonal upturn after the relatively slack returns of April and May.

Sentiment at airports group **BAA** continued to recover as brokers turn positive. The latest buy note on the stock comes from NatWest Securities. The shares added 3 at 471p in 5.2m traded.

Freight specialist **NFC** forged ahead 13 to 186p following news that chairman Sir Christopher Bland had acquired 400,000 shares in the company at 174p.

Security and telecoms group **Securicor** continued to lose ground ahead of today's results statement.

Cellnet, the mobile phones company in which the group has a 40 per cent stake, has been subject lately to worries about a high churn rate (subscriber withdrawals) and shrinking market share. The stock dipped 14 to 273p for a two-day decline of more than 8 per cent.

Kingfisher was one of the strongest performers in the retail sector, rising 9 to 637p. The group confirmed that it had secured a listing on the French stock exchange as well as lifting its stake in BUT, the French furniture and electrical goods retailer, to 26 per cent from 20 per cent. Kingfisher will have voting rights of just under 20 per cent.

BICC, the heavy electrical group with sizeable exposure to copper prices, fell 10 to 308p. A leading broker was said to have turned negative, and there was also talk of problems for the group in Germany.

Amstrad stayed firm following Tuesday's announcement of talks with computer electronics rival Psion. The shares rose 6 to 190p, extending the advance to 43 in two days.

Danka Business Systems fell more than 28 per cent following a profits warning from the office equipment group. Brokers cut their forecasts, and the shares lost 195 at 490p. Panmure Gordon came down by £6.5m to £72.5m for this year.

AIM newcomer **Solid State Supply** make a strong debut. Floated at 80p, the electronics group ended at 90p.

There was continued interest in the spirits sector, with **Grand Metropolitan** rising 6 to 425p and **Guinness** 10 to 456p. Renewed speculation in the media that Guinness may be looking to acquire IDV, Grand-Met's spirits arm, was described by one analyst as "unjustified". Analysts said there was a strong buyer of Guinness.

MARKET REPORTERS: Joel Kibazo, Lisa Wood, Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Jun 26	Jun 25	Jun 24	Jun 21	Jun 20	Yr ago	*High	*Low
Ordinary Share	2720.7	2714.1	2736.9	2743.0	2749.4	2457.9	2863.2	2698.7
Ord. div. yield	4.08	4.12	4.09	4.07	4.07	4.30	4.12	3.76
P/E ratio net	16.36	16.02	16.14	16.19	16.22	15.49	17.25	15.96
P/E ratio nil	16.29	15.93	16.05	16.10	16.13	16.25	17.03	15.76

Ordinary Share index since compilation: high 2863.2 19/04/96; low 49.4 26/06/40 Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2716.6	2718.5	2719.4	2719.8	3721.8	2722.8	2719.5	2718.7	2719.6	2724.3	2714.3

	Jun 26	Jun 25	Jun 24	Jun 21	Jun 20	Yr ago
SEAQ bargains	28,787	29,186	29,173	29,193	30,159	18,712
Equity turnover (£m)†	-	1644.5	1592.1	1714.7	1769.7	1259.4
Equity bargains†	-	34,421	36,063	34,852	35,193	24,410
Shares traded (ml)†	-	711.1	544.1	615.3	320.5	527

†Excluding intra-market business and overseas turnover

	Jun 26	Jun 25	Jun 24	Jun 21	Jun 20	Yr ago	*High	*Low
FT-SE AIM	1091.40	1092.90	1097.80	1102.40	1102.40	-	1140.40	965.70

*For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	377	Total Highs	48	Total contracts	34,831
Total Falls	826	Total Lows	43	Calls	11,885
Same	1,514			Puts	22,946

June 26 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3682.0	3685.0	+10.0	3689.0	3672.0	6521	60068
Dec	3703.0	3707.0	+10.0	3704.0	3703.0	123	1062

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		4380.0	-20.0			0	3800

■ FT-SE 100 INDEX OPTION (LIFFE) (*3694) £10 per full index point

	3550 C	3550 P	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 4,003 Puts 3,373

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3525 C	3525 P	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P	3775 C	3775 P	3825 C	3825 P	3875 C	3875 P
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 3,463 Puts 3,328 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs. yld	P/E net
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Jun 26	% chg on day	Jun 24	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	2081.74	-0.3	2087.18	2018.89	1.48	-	2320.73	1722.98
Regional Indices								
Africa (13)	2792.81	+1.3	2758.55	2718.88	2.60	38.03	3553.86	2272.74
Australasia (6)	2454.56	-1.0	2478.36	2328.21	2.68	28.70	2927.34	2142.28
North America (12)	1828.05	-0.6	1843.49	1773.54	0.74	84.99	2165.30	1488.94

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FT - SE Actuaries Share Indices — The UK Series

	Jun 26	Day's chge%	Jun 25	Jun 24	Jun 21	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3695.5	+0.4	3679.5	3710.8	3722.3	3382.7	4.10	2.14	14.24	90.18	1513.07
FT-SE Mid 250	4365.3	-0.4	4384.5	4433.3	4440.7	3589.7	3.42	1.74	21.07	106.01	1756.60
FT-SE Mid 250 ex Inv Trusts	4403.4	-0.5	4428.0	4476.1	4485.1	3596.6	3.50	1.78	20.03	111.65	1777.05
FT-SE-A 350	1866.0	+0.2	1861.5	1878.4	1883.6	1629.9	3.95	2.06	15.35	45.49	1662.31
FT-SE-A 350 Higher Yield	1788.1	+0.4	1780.8	1798.1	1805.9	1637.2	5.29	1.93	12.24	63.90	1261.90
FT-SE-A 350 Lower Yield	1950.9	+0.1	1949.4	1965.9	1968.6	1623.5	2.73	2.28	19.95	37.50	1353.53
FT-SE SmallCap	2209.06	-0.4	2217.34	2226.69	2232.44	1833.71	2.94	1.79	23.85	35.44	1815.71
FT-SE SmallCap ex Inv Trusts	2209.70	-0.4	2219.43	2230.69	2234.51	1812.38	3.12	1.88	21.38	37.58	1827.98
FT-SE-A ALL-SHARE	1853.24	+0.2	1849.55	1865.79	1870.80	1611.88	3.87	2.04	15.80	43.91	1675.70

■ FT-SE Actuaries All-Share

	Jun 26	Day's chge%	Jun 25	Jun 24	Jun 21	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3479.57	+0.6	3459.71	3470.65	3473.80	2830.77	3.86	1.88	17.72	79.25	1499.20
12 Extractive Industries(6)	4275.95	-0.8	4309.80	4337.31	4356.22	3776.97	3.75	2.82	13.24	109.16	1258.28
15 Oil, Integrated(3)	3531.24	+0.9	3500.63	3509.40	3511.28	2827.85	4.06	1.72	17.88	81.64	1580.43
18 Oil Exploration & Prod(15)	2494.56	+0.2	2486.01	2497.55	2492.96	2028.04	2.11	1.62	36.65	34.94	1502.45
20 GEN INDUSTRIALS(275)	2019.52	-0.1	2021.86	2046.94	2052.59	1894.78	4.25	1.90	15.47	45.01	1107.96
21 Building & Construction(34)	1187.96	-1.1	1200.87	1210.07	1207.79	940.76	3.47	1.68	21.47	20.76	996.42
22 Building Matls & Merchs(29)	1870.05	+0.4	1861.80	1896.23	1907.80	1727.61	4.06	1.74	17.57	42.61	946.98
23 Chemicals(25)	2416.51	-0.2	2420.44	2448.57	2454.62	2366.81	4.12	1.98	16.44	57.53	1151.17
24 Diversified Industrials(19)	1575.69	+1.7	1590.10	1589.97	1595.32	1768.65	6.61	1.70	11.15	55.38	889.00
25 Electronic & Elect Equip(37)	2271.29	-3.0	2342.47	2358.27	2363.10	1958.99	3.27	1.67	22.88	17.76	1173.96
26 Engineering(71)	2448.60	+0.1	2446.26	2461.09	2469.52	1933.13	3.26	2.49	15.41	47.14	1494.46
27 Engineering, Vehicles(13)	3030.77	-0.6	3037.86	3039.00	3030.32	2265.40	3.53	1.96	18.10	53.22	1598.54
28 Paper, Pckg & Printing(28)	2574.05	-0.2	2579.83	2606.54	2607.40	3000.80	3.98	1.98	15.85	55.87	1077.86
29 Textiles & Apparel(19)	1365.87	-0.4	1370.85	1387.37	1395.69	1588.66	5.18	1.58	15.31	41.87	842.99
30 CONSUMER GOODS(81)	3538.92	+0.5	3521.11	3535.90	3544.74	3172.54	3.96	1.89	16.73	81.49	1314.46
32 Alcoholic Beverages(9)	2714.49	+1.2	2681.29	2679.35	2687.85	2704.00	4.81	1.82	16.77	71.90	985.34
33 Food Producers(23)	2514.04	-0.2	2519.35	2521.70	2512.20	2486.43	4.13	1.97	15.36	65.16	1144.73
34 Household Goods(15)	2628.83	-0.1	2630.75	2642.27	2640.19	2581.06	3.78	2.16	15.40	56.43	1008.77
36 Health Care(20)	2092.66	-1.3	2120.24	2134.61	2134.28	1782.73	2.58	1.84	26.37	33.80	1277.79
37 Pharmaceuticals(13)	5109.97	+0.8	5068.90	5082.78	5119.09	4145.27	3.31	1.87	20.22	91.18	1739.02
38 Tobacco(1)	4210.03	+0.2	4201.56	4256.82	4273.56	4028.42	6.04	2.12	9.77	156.18	1057.63
40 SERVICES(256)	2521.72	+0.2	2517.17	2539.88	2546.81	2001.44	2.83	2.01	21.99	51.01	1319.66
41 Distributors(32)	2891.32	-0.1	2894.25	2926.74	2919.49	2550.97	2.95	1.77	23.96	48.29	1070.74
42 Leisure & Hotels(24)	3255.21	-0.1	3260.63	3294.18	3296.90	2300.23	2.72	1.89	24.28	143.74	1754.09
43 Media(46)	4198.32	+0.7	4165.42	4184.62	4191.82	3035.58	2.17	1.88	30.61	51.77	1520.61
44 Retailers, Food(15)	2003.23	-0.4	2010.43	2034.98	2039.34	1974.70	3.79	2.31	14.30	48.47	1265.44
45 Retailers, General(44)	2074.52	+0.2	2070.80	2103.25	2112.08	1606.06	3.01	2.15	19.27	45.45	1195.84
47 Breweries, Pubs & Rest.(24)	3148.23	-0.4	3161.49	3197.33	3208.36	2415.60	3.23	2.14	18.08	50.78	1517.99
48 Support Services(49)	2426.26	-0.1	2431.45	2441.10	2443.86	1616.65	1.91	2.37	27.56	27.48	1546.78
49 Transport(22)	2370.66	+0.7	2353.56	2355.67	2372.81	2214.90	3.43	1.47	24.84	54.52	996.03
60 UTILITIES(33)	2299.93	-0.3	2306.93	2334.88	2346.89	2333.23	5.55	2.01	11.16	77.13	988.06
62 Electricity(11)	2538.79	-0.3	2546.16	2568.82	2584.00	2190.06	6.42	2.46	7.86	167.96	1248.11
64 Gas Distribution(2)	1212.41	-0.4	1216.84	1223.49	1230.25	1902.39	9.88	1.36	9.32	86.67	635.92
66 Telecommunications(8)	1947.12	-0.5	1956.21	1985.05	1995.37	2071.28	4.15	1.79	16.80	12.56	896.79
68 Water(12)	2129.15	+0.2	2124.33	2150.95	2157.44	1863.28	6.21	2.34	8.61	67.30	1188.93
69 NON-FINANCIALS(669)	1976.93	+0.2	1973.64	1990.45	1995.98	1736.55	3.86	1.94	16.73	46.11	1509.26
70 FINANCIALS(105)	2827.87	+0.4	2816.62	2846.78	2855.47	2342.44	4.27	2.63	11.14	78.48	1227.12
71 Banks, Retail(8)	3888.59	+0.7	3863.17	3909.23	3920.92	3138.32	4.00	2.89	10.80	110.04	1280.58
72 Banks, Merchant(6)	3640.54	-0.2	3649.58	3688.42	3689.31	3233.36	2.72	2.60	17.71	55.36	1159.27
73 Insurance(23)	1428.68	+0.8	1417.18	1448.50	1453.73	1264.29	5.91	3.12	6.78	48.01	1083.13
74 Life Assurance(6)	3326.42	-0.1	3328.50	3326.81	3340.75	2648.59	4.49	2.24	12.43	100.72	1394.46
77 Other Financial(21)	2640.22	-0.4	2650.60	2683.97	2669.70	2003.54	3.95	1.73	18.31	58.60	1513.75
79 Property(41)	1505.81	-0.4	1512.29	1521.30	1526.26	1430.22	4.23	1.29	22.83	35.24	934.71
80 INVESTMENT TRUSTS(128)	3143.01	....	3142.74	3161.13	3157.61	2746.54	2.23	1.11	50.64	39.96	1101.49
89 FT-SE-A ALL-SHARE(900)	1853.24	+0.2	1849.55	1865.79	1870.80	1611.88	3.87	2.04	15.80	43.91	1675.70
FT-SE-A Fledgling	1260.78	-0.4	1265.65	1272.68	1272.32	998.69	2.74	2.15	21.18	18.31	1320.40
FT-SE-A Fledgling ex Inv Trusts	1275.40	-0.5	1281.27	1289.01	1288.59	990.81	2.95	2.32	18.26	17.65	1336.11

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3687.8	3687.8	3691.9	3691.1	3693.8	3696.0	3691.4	3690.4	3694.7	3695.3	3685.2
FT-SE Mid 250	4380.3	4378.7	4373.0	4374.0	4373.2	4373.0	4368.9	4366.0	4365.5	4380.3	4364.2
FT-SE-A 350	1864.4	1864.2	1865.2	1866.0	1866.0	1866.9	1864.7	1864.0	1865.6	1867.0	1862.1

Time of FT-SE 100 Day's high: 1:11 PM Day's low: 9:11 AM. FT-SE 100 1996 High: 3857.1 (19/04/96) Low: 3954.2 (23/01/96).

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1178.2	1176.3	1169.0	1168.0	1165.1	1165.1	1164.7	1164.7	1164.8	1164.8	1179.8	-15.0
Pharmaceuticls	5011.9	4998.3	5000.7	4997.1	4999.8	5016.9	5011.9	5019.9	5036.1	5038.1	4997.1	+41.0
Water	2110.7	2111.8	2110.0	2114.3	2114.7	2115.8	2115.6	2114.9	2116.2	2116.2	2111.3	+4.9
Banks, Retail	3934.6	3934.6	3933.8	3933.2	3935.8	3937.2	3929.6	3928.0	3938.0	3938.3	3912.5	+25.8

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues.
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TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
ASDA Group†	[illegible]	[illegible]	[illegible]
Abbey National†	[illegible]	[illegible]	[illegible]
Allied Domecq†	[illegible]	[illegible]	[illegible]
Anglian Water	[illegible]	[illegible]	[illegible]
Argos	[illegible]	[illegible]	[illegible]
Argyll Group†	[illegible]	[illegible]	[illegible]
Arjo Wiggins	[illegible]	[illegible]	[illegible]
Assoc. Brit. Foods†	[illegible]	[illegible]	[illegible]
BAA†	[illegible]	[illegible]	[illegible]
BAT Inds.†	[illegible]	[illegible]	[illegible]
BICC	[illegible]	[illegible]	[illegible]
BOC†	[illegible]	[illegible]	[illegible]
BP†	[illegible]	[illegible]	[illegible]
BSkyB†	[illegible]	[illegible]	[illegible]
BT†	[illegible]	[illegible]	[illegible]
BTR†	[illegible]	[illegible]	[illegible]
Bank of Scotland†	[illegible]	[illegible]	[illegible]
Barclays†	[illegible]	[illegible]	[illegible]
Bass†	[illegible]	[illegible]	[illegible]
Blue Circle†	[illegible]	[illegible]	[illegible]
Boots†	[illegible]	[illegible]	[illegible]
Brit. Aerospace†	[illegible]	[illegible]	[illegible]
British Airways†	[illegible]	[illegible]	[illegible]
British Gas†	[illegible]	[illegible]	[illegible]
British Land†	[illegible]	[illegible]	[illegible]
British Steel†	[illegible]	[illegible]	[illegible]
Burmah Castrol†	[illegible]	[illegible]	[illegible]
Burton†	[illegible]	[illegible]	[illegible]
Cable & Wire†	[illegible]	[illegible]	[illegible]
Cadbury Schweppes†	[illegible]	[illegible]	[illegible]
Caradon	[illegible]	[illegible]	[illegible]
Carlton Comms.†	[illegible]	[illegible]	[illegible]
Chubb	[illegible]	[illegible]	[illegible]
Coats Viyella	[illegible]	[illegible]	[illegible]
Comm. Union†	[illegible]	[illegible]	[illegible]
Compass	[illegible]	[illegible]	[illegible]
Cookson†	[illegible]	[illegible]	[illegible]
Courtaulds†	[illegible]	[illegible]	[illegible]
Dalgety	[illegible]	[illegible]	[illegible]
De La Rue	[illegible]	[illegible]	[illegible]
Dixons†	[illegible]	[illegible]	[illegible]
East Midland Elect.	[illegible]	[illegible]	[illegible]
Electrocomps	[illegible]	[illegible]	[illegible]
Eng China Clays	[illegible]	[illegible]	[illegible]
Enterprise Oil†	[illegible]	[illegible]	[illegible]
Eurotunnel Units	[illegible]	[illegible]	[illegible]
FKI	[illegible]	[illegible]	[illegible]
Foreign & Col. I.T.	[illegible]	[illegible]	[illegible]
Gen. Accident†	[illegible]	[illegible]	[illegible]
General Elect.†	[illegible]	[illegible]	[illegible]
Glaxo Wellcome†	[illegible]	[illegible]	[illegible]
Glynwed	[illegible]	[illegible]	[illegible]
Granada†	[illegible]	[illegible]	[illegible]
Grand Met.†	[illegible]	[illegible]	[illegible]
GUS†	[illegible]	[illegible]	[illegible]
Greenalls	[illegible]	[illegible]	[illegible]
GRE†	[illegible]	[illegible]	[illegible]
GKN†	[illegible]	[illegible]	[illegible]
Guinness†	[illegible]	[illegible]	[illegible]
HSBC (75p shs)†	[illegible]	[illegible]	[illegible]
Hammerson	[illegible]	[illegible]	[illegible]
Hanson†	[illegible]	[illegible]	[illegible]
Harrisons Crosfield	[illegible]	[illegible]	[illegible]
Hays	[illegible]	[illegible]	[illegible]
Hillsdown	[illegible]	[illegible]	[illegible]
Hyder	[illegible]	[illegible]	[illegible]
IMI	[illegible]	[illegible]	[illegible]
ICI†	[illegible]	[illegible]	[illegible]
Inchcape	[illegible]	[illegible]	[illegible]
Johnson Matthey	[illegible]	[illegible]	[illegible]
Kingfisher†	[illegible]	[illegible]	[illegible]
Kwik Save	[illegible]	[illegible]	[illegible]
Ladbroke†	[illegible]	[illegible]	[illegible]
Land Securities†	[illegible]	[illegible]	[illegible]
Laporte	[illegible]	[illegible]	[illegible]
Legal & General†	[illegible]	[illegible]	[illegible]
Lloyds Abbey	[illegible]	[illegible]	[illegible]
Lloyds TSB†	[illegible]	[illegible]	[illegible]
LASMO†	[illegible]	[illegible]	[illegible]
London Elect	[illegible]	[illegible]	[illegible]
Lonrho	[illegible]	[illegible]	[illegible]
Lucas	[illegible]	[illegible]	[illegible]
MEPC	[illegible]	[illegible]	[illegible]
MFI	[illegible]	[illegible]	[illegible]
Marks & Spencer†	[illegible]	[illegible]	[illegible]
Mercury Asset Man	[illegible]	[illegible]	[illegible]
Midlands Elect	[illegible]	[illegible]	[illegible]
Morrison (Wm.)	[illegible]	[illegible]	[illegible]
NFC	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
National Grid†	[illegible]	[illegible]	[illegible]
National Power†	[illegible]	[illegible]	[illegible]
Next†	[illegible]	[illegible]	[illegible]
Northern Elec.	[illegible]	[illegible]	[illegible]
Northern Foods	[illegible]	[illegible]	[illegible]
Orange†	[illegible]	[illegible]	[illegible]
Pearson†	[illegible]	[illegible]	[illegible]
P & O†	[illegible]	[illegible]	[illegible]
Pilkington†	[illegible]	[illegible]	[illegible]
PowerGen†	[illegible]	[illegible]	[illegible]
Premier Farnell	[illegible]	[illegible]	[illegible]
Prudential†	[illegible]	[illegible]	[illegible]
REXAM	[illegible]	[illegible]	[illegible]
RMC†	[illegible]	[illegible]	[illegible]
RTZ†	[illegible]	[illegible]	[illegible]
Racal	[illegible]	[illegible]	[illegible]
Railtrack	[illegible]	[illegible]	[illegible]
Rank Org.†	[illegible]	[illegible]	[illegible]
Reckitt & Colman†	[illegible]	[illegible]	[illegible]
Redland†	[illegible]	[illegible]	[illegible]
Reed Intl.†	[illegible]	[illegible]	[illegible]
Rentokil†	[illegible]	[illegible]	[illegible]
Reuters†	[illegible]	[illegible]	[illegible]
Rolls Royce†	[illegible]	[illegible]	[illegible]
Ryl Bk Scotland†	[illegible]	[illegible]	[illegible]
Royal Insurance†	[illegible]	[illegible]	[illegible]
Sainsbury†	[illegible]	[illegible]	[illegible]
Schroders†	[illegible]	[illegible]	[illegible]
Scottish & New.†	[illegible]	[illegible]	[illegible]
Scot. Hydro-Elect.	[illegible]	[illegible]	[illegible]
Scottish Power†	[illegible]	[illegible]	[illegible]
Sears	[illegible]	[illegible]	[illegible]
Sedgwick	[illegible]	[illegible]	[illegible]
Severn Trent†	[illegible]	[illegible]	[illegible]
Shell Transport†	[illegible]	[illegible]	[illegible]
Siebe†	[illegible]	[illegible]	[illegible]
Slough Ests	[illegible]	[illegible]	[illegible]
Smith (W.H.)	[illegible]	[illegible]	[illegible]
Smith & Nephew†	[illegible]	[illegible]	[illegible]
SmKl Beecham†	[illegible]	[illegible]	[illegible]
Smiths Inds.†	[illegible]	[illegible]	[illegible]
Southern Elect†	[illegible]	[illegible]	[illegible]
South West Water	[illegible]	[illegible]	[illegible]
Southern Water	[illegible]	[illegible]	[illegible]
Standard Chartd.†	[illegible]	[illegible]	[illegible]
Storehouse	[illegible]	[illegible]	[illegible]
Sun Alliance†	[illegible]	[illegible]	[illegible]
T&N	[illegible]	[illegible]	[illegible]
TI Group†	[illegible]	[illegible]	[illegible]
Tarmac	[illegible]	[illegible]	[illegible]
Tate & Lyle†	[illegible]	[illegible]	[illegible]
Taylor Woodrow	[illegible]	[illegible]	[illegible]
TeleWest Comms	[illegible]	[illegible]	[illegible]
Tesco†	[illegible]	[illegible]	[illegible]
Thames Water†	[illegible]	[illegible]	[illegible]
Thorn EMI†	[illegible]	[illegible]	[illegible]
Tomkins†	[illegible]	[illegible]	[illegible]
Unigate	[illegible]	[illegible]	[illegible]
Unilever†	[illegible]	[illegible]	[illegible]
United Biscuits	[illegible]	[illegible]	[illegible]
Utd. News & Media†	[illegible]	[illegible]	[illegible]
United Utilities†	[illegible]	[illegible]	[illegible]
Vodafone†	[illegible]	[illegible]	[illegible]
WPP	[illegible]	[illegible]	[illegible]
Wessex Water	[illegible]	[illegible]	[illegible]
Whitbread†	[illegible]	[illegible]	[illegible]
Williams Hldgs.†	[illegible]	[illegible]	[illegible]
Willis Corroon	[illegible]	[illegible]	[illegible]
Wimpey	[illegible]	[illegible]	[illegible]
Wolseley†	[illegible]	[illegible]	[illegible]
Yorkshire Elect	[illegible]	[illegible]	[illegible]
Yorkshire Water	[illegible]	[illegible]	[illegible]
Zeneca†	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of alpha securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 Index constituent. All trades are ... FT Extel.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 26 / Sch)

BELGIUM/LUXEMBOURG (Jun 26 / Frs.)

CZECH REP (Jun 26 / Koruna)

DENMARK (Jun 26 / Kr)

FINLAND (Jun 26 / Mkk)

FRANCE (Jun 26 / Frs.)

GERMANY (Jun 26 / Dm.)

GREECE (Jun 25 / Drachma)

ITALY (Jun 26 / Lire)

NETHERLANDS (Jun 26 / Fls.)

NORWAY (Jun 26 / Kroner)

POLAND (Jun 26 / Zloty)

		+/-	High	Low	Yld	P/E
Elektrim	20.20	+1.20	21.80	8	0.6	—
Exbud	28	-1	41.60	16.50	—	—
Mostal	12	—	13.90	6.40	—	—
Wedel	125	+7	146	82	1.0	—
Wieczak	22.90	-.80	27.50	21.50	1.3	—
Zywiec	210	—	236	170	1.0	—

PORTUGAL (Jun 26 / Escudo)

SPAIN (Jun 26 / Pts.)

SWEDEN (Jun 26 / Kronor)

SWITZERLAND (Jun 26 / Frs.)

TURKEY (Jun 26 / TK Lira)

PACIFIC

JAPAN (Jun 26 / Yen)

HONG KONG (Jun 26 / H.K.$)

INDONESIA (Jun 26 / Rupiah)

MALAYSIA (Jun 26 / MYR)

NEW ZEALAND (Jun 26 / NZ $)

SINGAPORE (Jun 26 / S$)

AUSTRALIA (Jun 26 / Aust$)

SOUTH KOREA (Jun 26 / Won)

TAIWAN (Jun 26 / TW $)

THAILAND (Jun 26 / Baht)

AFRICA

SOUTH AFRICA (Jun 26 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jun 26 / Can $)
4 pm close

MONTREAL (Jun 26 / Can $)
4 pm close

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/lows are based on data from Jan 1 1996. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $

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INDICES

	Jun 26	Jun 25	Jun 24	1996 High		1996 Low	
Argentina							
General(29/12/77)	(u)	18548.14	18478.02	18891.89	20/5	16022.81	19/3
Australia							
All Ordinaries(1/1/80)	2252.8	2254.3	2258.7	2328.80	28/4	2137.40	11/3
All Mining(1/1/80)	1028.3	1035.2	1042.6	1118.40	8/5	1004.70	18/1
Austria							
Credit Aktien(30/12/84)	377.54	377.50	376.14	394.99	31/5	352.78	2/1
Traded Index(2/1/91)	1098.43	1099.58	1090.21	1142.51	28/5	976.27	2/1
Belgium							
BEL20(1/1/91)	1736.98	1736.07	1728.79	1773.26	28/5	1574.80	2/1
Brazil							
Bovespa(29/12/83)	(u)	60694.0	62016.0	63916.69	24/6	40801.86	2/1
Canada							
Metals Minls♦(1975)	(u)	5133.43	5155.95	5624.80	6/5	4367.47	18/1
Composite♦(1975)	(u)	5059.80	5074.30	5238.90	22/5	4739.76	15/1
Portfolio§§(4/1/83)	(u)	2498.49	(c)	2565.55	27/5	2227.38	12/1
Chile							
IGPA Gen♥(31/12/80)	(u)	5466.60	5502.88	5994.33	8/1	5215.28	8/4
Denmark							
CopenhagenSE(3/1/83)	407.26	407.26	406.84	407.28	25/6	366.40	2/1
Finland							
HEX General(28/12/90)	2006.70	2000.35	2010.21	2070.42	31/5	1851.67	10/1
France							
SBF 250(31/12/90)	1440.71	1444.13	1432.75	1457.58	6/5	1250.16	2/1
CAC 40(31/12/87)	2113.28	2118.43	2097.63	2148.79	30/4	1897.85	11/1
Germany							
FAZ Aktien(31/12/58)	911.58	908.47	905.07	911.58	26/6	818.56	2/1
Commerzbank(1/12/53)	2623.40	2620.30	2609.80	2623.40	26/6	2370.20	2/1
DAX‡(30/12/87)	2573.69	2572.96	2586.43	2573.69	26/6	2284.86	2/1
Greece							
Athens SE(31/12/80)	(c)	888.76	891.83	1017.86	4/3	891.83	24/6
Hong Kong							
Hang Seng(31/7/64)	11059.92	10982.77	10959.72	11594.99	16/2	[illegible]	3/1
India							
BSE Sens.(1979)	3792.75	3855.06	3928.58	4089.26	18/5	2828.06	25/1
Indonesia							
Jakarta Comp.(10/8/82)	582.79	584.20	578.77	638.21	24/4	512.49	2/1
Ireland							
ISEQ Overall(4/1/88)	2544.30	2564.00	2584.99	2685.19	18/6	2294.61	2/1
Italy							
Banca Comm Ital(1972)	661.18	664.52	660.61	674.10	20/5	572.21	23/3
MIB General(2/1/95)	1121.0	1126.0	1120.0	1142.00	20/5	970.00	27/3
Japan							
Nikkei 225(16/5/49)	22668.80	22597.17	22603.26	22666.80	26/6	19734.70	13/3
Nikkei 300(1/10/82)	319.70	318.57	318.32	319.70	26/6	284.48	11/3
Topix(4/1/68)	1722.13	1715.83	1718.81	1722.13	26/6	1524.12	13/3
2nd Section(4/1/68)	2234.50	2227.61	2220.84	2243.26	2/6	1962.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1130.77	1148.86	1151.00	1189.84	30/4	980.16	2/1
Mexico							
IPC(Nov 1978)	(u)	3169.98	3132.22	3382.83	22/5	2739.26	8/3
Netherland							
CBS TtlRtnGen(End 83)	842.5	839.3	837.6	852.80	12/6	539.50	2/1
CBS All Shr(End 83)	381.0	379.2	378.2	387.10	13/6	325.70	2/1
New Zealand							
Cap. 40(1/7/86)	2098.95	2080.28	2090.47	2203.08	4/1	[illegible]	7/6
Norway							
Oslo SE(Ind)(2/1/83)	1425.22	1420.35	1462.78	1466.71	12/6	1269.60	30/1
Philippines							
Manila Comp(2/1/85)	3240.39	3216.56	3227.16	3266.76	10/6	2578.07	2/1
Portugal							
BVL 30(4/1/88)	1958.46	1949.80	1939.31	1959.46	26/6	1602.81	2/1
Singapore							
SES All-S'pore(2/4/75)	580.62	582.10	582.38	610.37	8/2	553.89	2/1
South Africa							
JSE Gold(28/9/78)	1791.1♥	1812.0	1792.2	2030.40	29/5	1346.40	2/1
JSE Ind.(28/9/78)	8172.8♥	8144.2	8109.7	8738.30	25/1	7723.20	20/5
South Korea							
KoreaCmpEx**(4/1/80)	823.68	836.94	842.48	986.84	7/5	823.88	26/6
Spain							
Madrid SE(30/12/85)	372.88	374.07	373.84	374.07	25/6	323.75	11/1
Sweden							
AffarsvarldenGen(1/2/37)	1975.2	1980.5	1992.9	2019.00	6/6	1708.60	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1782.04	1774.32	1781.63	1782.04	26/6	1516.19	17/1
SBC General(1/4/87)	1262.86	1255.03	1256.94	1262.86	26/6	1114.47	26/1
Taiwan							
WeightedPr.**(30/6/66)	6360.87	6384.07	6431.25	6431.25	24/6	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	1228.35	1225.57	1223.40	1418.84	6/2	1223.40	24/6
Turkey							
Istanbul Cmp.(Jan 1986)	68083.0	67856.8	66598.1	72098.90	8/4	36779.30	2/1
WORLD							
MS Capital Intl$(1/1/70)	778.6*	776.8	779.7	780.30	22/5	725.90	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1699.10	1695.42	1690.97	1698.17	28/5	1504.40	11/1
Euro Top-100(26/6/90)	1437.84	1437.44	1437.46	1458.28	25/4	1333.01	11/1
HSBC JC Drgn(31/12/88)	(u)	377.87	377.57	393.18	16/4	344.19	2/1
ING Bmgs Emrg(7/1/92)	162.97	163.26	162.57	164.14	14/5	147.35	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x index)							
Jun	2116.0	2115.0	+0.5	2119.0	2108.0	500	24,988
Jul	2115.5	2113.5	+0.5	2118.0	2105.0	11,643	27,251
DAX							
Sep	2590.0	2593.5	-3.00	2598.5	2586.0	9,044	–
Dec	2612.0	2613.0	-2.50	2616.0	2607.0	27	–
OMX							
Jun	1541.00	1536.50	-1.50	1541.00	1527.00	3,597	70,384
Jul	1544.00	1543.75	-1.25	1544.75	1533.75	1,559	13,292
SOFFEX							
Jun	3710.5	3719.0	+11.5	3720.5	3698.0	4,295	30,902
Jul	3720.0	3725.0	+15.0	3725.0	3720.0	3	91

** Sat Jun 22: Taiwan Weighted Price 6401.35; Korea Comp Ex 856.38. Base values of all indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Jun 26 - 2572.06 -8.30.

US INDICES

Dow Jones	Jun 25	Jun 24	Jun 21	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5719.27	5717.79	5705.23	5778.00 (22/5)	5032.94 (10/1)	5778.00 (22/5/96)	41.22 (8/7/32)
Home Bonds	101.22	101.06	101.28	108.09 (14/2)	101.06 (24/6)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2197.46	2208.68	2208.31	2298.20 (22/5)	1882.71 (18/1)	2298.20 (22/5/96)	12.32 (8/7/32)
Utilities	212.34	211.71	210.82	234.80 (12/2)	205.42 (7/5)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5760.27 (5770.61) Low 5668.66 (5668.61) (Theoretical†)
Day's high 5729.61 (5742.54) Low 5688.32 (5704.48) (Actual†)

Standard and Poors	Jun 25	Jun 24	Jun 21	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	668.48	668.85	666.84	678.51 (24/5)	598.48 (10/1)	678.51 (24/5/96)	4.40 (1/6/32)
Industrials♥	798.82	798.03	796.09	807.88 (5/6)	702.07 (15/1)	807.88 (5/6/96)	3.62 (21/6/32)
Financial	66.75	66.38	66.86	68.68 (5/3)	58.67 (10/1)	68.66 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	356.03	358.01	357.02	363.74 (24/5)	321.41 (10/1)	363.74 (24/5/96)	4.46 (25/4/42)
Amex Mkt Val	581.74	586.14	584.86	614.59 (22/5)	529.05 (18/1)	614.59 (22/5/96)	29.31 (9/12/72)
NASDAQ Cmp	1172.89	1182.91	1175.34	1249.14 (5/6)	988.57 (15/1)	1249.14 (5/6/96)	54.87 (31/10/72)

RATIOS

	Jun 21	Jun 14	Jun 7	Year ago
Dow Jones Ind. Div. Yield	2.17	2.19	2.16	2.42
	Jun 19	Jun 12	Jun 5	Year ago
S & P Ind. Div. yield	1.87	1.87	1.83	2.20
S & P Ind. P/E ratio	22.22	19.65	22.74	17.65

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Portland Gen	6,427,600	29¾	+⅛
Westinghse E	5,242,900	19¼	—
Ford Motor	4,883,500	32¾	-⅛
PepsiCo	3,960,800	35	+⅛
WalMart	3,782,200	25¼	-½
TJX Co	3,755,100	32¾	+1¼
Chrysler	3,720,200	63⅝	-2⅛
Gen Motors	3,563,500	53¼	-1⅛
Prov Journal	2,903,200	15⅝	+⅛
Ascend	2,600,900	59⅛	-⅛

TRADING ACTIVITY

● Volume (millions)	Jun 25	Jun 24	Jun 21
New York SE	389.994	333.821	488.126
Amex	38.302	32.787	19.965
NASDAQ	571.912	513.532	552.709
NYSE			
Issues Traded	3,165	3,170	3,119
Rises	1,067	1,341	1,315
Falls	1,299	1,015	985
Unchanged	799	814	819
New Highs	60	51	46
New Lows	61	45	44

	Open	Latest	Change	High	Low	Est. vol.	Open int.
S&P 500							
Sep	673.80	673.50	-0.65	676.90	673.00	52,179	168,302
Dec	682.40	680.25	–	–	–	197	6,207

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Nikkei 225							
Jun	22660.0	22710.0	+70.0	22800.0	22640.0	18,048	218,501
Sep	22690.0	22800.0	+110.0	22800.0	22690.0	14	4,114

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

TOKYO - MOST ACTIVE STOCKS: Wednesday June 26, 1996

	Stocks Traded	Closing Prices	Change on day
Mitsubishi Hvy	11.8m	954	+18
Clarion	11.3m	668	+13
Hanwa	10.6m	435	+38
Hitachi Zosen	8.3m	624	+18
Matsushita E Ind	8.3m	2060	+50
Nippon Steel	7.3m	380	+4
Keisei Ele Ry	7.0m	1240	+30
NKK Corp	6.7m	353	+4
Hokkaido Taku	5.9m	341	-11
Kanematsu	5.8m	781	-19

4 pm close June 26

NEW YORK STOCK EXCHANGE PRICES

1996 High	1996 Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
23¾	19⅛	AAR	0.48	2.3	22	355	20⅝	20¼	20½	+¼
48⅛	35⅜	AMP	1.00	2.5	20	4011	40¾	40¼	40½	
97½	66	AMR			22	3442	92½	88¾	89⅞	-1¾
50½	37⅞	ASA	1.80	4.5	26	399	40¼	39⅝	40	-¼
44¾	35⅛	AbbtL	0.96	2.2	19	5939	43⅝	43⅛	43⅜	-⅛
17¼	13¼	Abitibi Pr	0.40	2.9	7	658	14	13¾	13⅞	
39	27	ABM Ind	0.70	1.8	19	110	38¾	38½	38⅝	+⅛
18¼	13⅞	Acptocain			44	265	17	16¾	16⅞	-¼
50⅞	37¾	ACE Ltd	0.56	1.2	11	1078	47⅞	46⅞	47¼	-¼
9⅞	8⅛	ACM Gvt In	0.90	9.4	8	152	9¾	9⅝	9⅝	-⅛
7⅞	6⅝	ACM GvOpp	0.57	8.3		58	6⅞	6¾	6⅞	-⅛
7¼	6	ACM Gvt Sp	0.66	10.6		490	6⅜	6⅛	6¼	
9⅛	8¼	ACM Gvt Se	0.90	10.6		401	8½	8⅜	8½	+⅛
9½	8½	ACM Man	0.90	10.4		222	8⅝	d8½	8⅝	
30¼	16½	AcmeClv	0.52	1.7	7	172	30	29⅞	29⅞	-⅛
13⅞	6⅛	Acme Elect			46	154	8½	8⅜	8⅜	
33	27¼	Acordia	0.80	2.4	19	8	d33	32¾	32¾	
21⅛	12	Acuson			75	774	16⅞	16⅜	16½	+⅛
19½	16⅜	Adams Expr	1.66	8.7	0	181	19¼	19	19	
21⅛	13	AdvMic			5	8358	13¼	d13	13¼	-⅛
11⅛	8½	Advest Grp	0.16	1.5	7	41	10½	10⅜	10½	
26⅛	9⅛	Advo Inc	0.10	1.0	58	1886	10⅝	10⅜	10¼	-⅛
50⅞	41⅛	Aegon	1.19	2.6	14	31	46	45¾	45¾	-¼
6⅞	3½	Aerfix			3	225	5⅝	5½	5½	-⅛
78¾	65⅜	AetnaL	2.76	3.8	18	5284	72	71⅜	71⅝	-⅜
33	28¼	Aflac	0.40	1.3	12	2544	29⅞	29½	29¾	+⅛
20⅜	17⅛	AGL Res	1.06	5.9	16	261	18	17⅞	18	+⅛
27⅝	21¼	Ahmson	0.88	3.3	7	3361	26⅞	26¼	26⅝	+⅜

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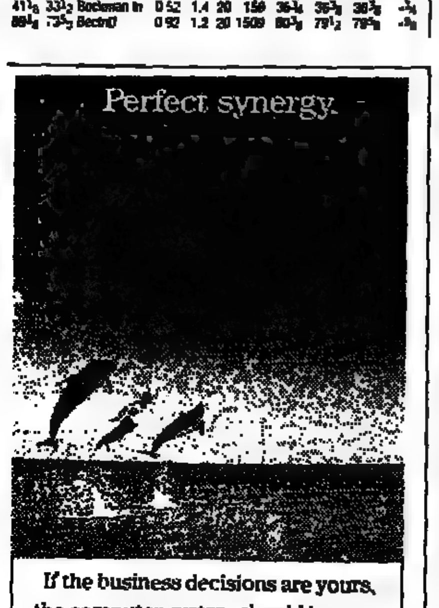

4 pm close June 26

NYSE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
Continued from previous page										
20⅛	13½	SciA[illegible]	0.06	0.4	38	2410	15	14¾	14⅞	
21	17	Scotsman x	0.10	0.5	12	45	20¼	20⅛	20¼	
45⅞	38⅛	Scripps	0.52	1.1	27	1744	u45⅞	44¾	45¾	+1
16⅛	14½	ScuddrNAsF	0.02	0.1		165	14¾	d14½	14⅝	-⅛
12¾	11	ScuddrWEsF	0.16	1.3		163	u12¾	12⅝	12⅝	
20½	16	SeaCnB	0.70	3.6	2	z100	19½	19½	19½	-¼
16	15	SeaC1.4625	1.46	9.4		18	15⅝	15⅜	15⅝	+⅜
67¾	42¼	S'gate				1621747	44⅝	d42¼	42½	-2
38⅞	31⅞	Seagrm x	0.60	1.8	23	4961	33⅞	33⅛	33½	-⅜
24⅝	17½	Seagull En			15	1852	23¾	23⅛	23⅝	+¼
38⅛	30	Sealed Air			24	200	33⅝	33	33⅛	-½
53⅞	38¼	SearsR	0.92	1.9	14	9467	49	48	48⅝	
22⅞	19¾	SecCapSBI	1.24	5.7	21	1540	21⅞	21⅝	21⅞	+⅛
13	11⅞	Seligm Sel x	0.84	6.7		37	12⅝	12½	12½	
23¾	13⅝	SensorPat	0.22	1.4	14	3674	16¼	15⅝	16¼	+¼
43	29½	SequaA	0.60	1.4	111	41	42⅞	42¼	42⅞	-⅛
[illegible]	[illegible]	[illegible]	0.50	1.0	131	28	u50	49¾	50	
60¼	38⅞	ServCp	0.48	0.8	30	2746	58⅛	57¼	57⅜	-1
23½	19½	SvMstr	0.68	3.0	15	658	23¼	22¾	22¾	-⅝
8¼	4½	SeraMerch			11	713	5⅜	5½	5⅝	-⅛
48¼	28½	SGSThm			7	1799	35⅞	34⅝	34⅝	-1¼
15⅛	10⅝	Shaw Ind	0.30	2.3	39	1260	13¼	13	13	
12⅞	10⅛	Shelby Wll	0.28	2.8	13	153	10⅝	10¼	10⅝	+½
88¼	76⅝	ShellTr	3.26	3.7	17	66	u88¼	87½	88	+⅜
47	38	ShrW	0.70	1.5	19	1826	46⅛	45⅜	45⅜	-1
13⅞	7⅞	Shoneys			12	229	11⅛	10⅞	10⅞	-¼
35½	21	Showboat x	0.10	0.3	43	1465	30¼	28½	29	-1⅞
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AMEX PRICES

4 pm close June 26

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4 pm close June 26

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AMERICA

Drop in tech shares weighs upon equities

Wall Street

Tumbling technology shares weighed on the US equity market as the Nasdaq continued the fall that has taken it down by nearly 8 per cent since its record high early this month, *writes Lisa Bransten in New York.*

In early afternoon trade the Nasdaq composite, which is weighted towards the technology sector, was off 22.79 at 1,149.68, almost exactly 100 points below its record close of 1,249.15 set on June 5. The Pacific Stock Exchange technology index, which includes shares traded on the Nasdaq and the New York Stock Exchange, was 2.3 per cent lower.

Weakness on the Nasdaq spilled over into other indices, which were mostly flat throughout the morning. By 12:30 pm, however, the Dow Jones Industrial Average was off 41.37 at 5,677.90. The Standard & Poor's 500 fell 4.69 to 663.79 and the American Stock Exchange composite was 4.74 lower at 577.00. Volume on the NYSE was 208m shares.

Declines in the technology sector were widespread across most sectors of the market, with both new Internet stocks, with no earnings, and old-line companies, such as hardware manufacturers and semiconductor makers, losing ground.

Falling semiconductor shares included Texas Instruments, off $2¼ or 4 per cent at $48⅞, Motorola, $1⅞ or 3 per cent weaker at $61, and Intel, $1½ down at $71⅛. Computer makers were also mostly lower. Compaq dipped $1⅞ to $46¾, IBM $⅞ to $98⅞, Dell $2⅞ to $47⅞, and Gateway 2000 $1¼ to $32⅝.

Among Internet-related issues, Netscape retreated $4 to $54⅝, UUnet lost $2¾ at $64⅞, and Yahoo! receded $⅞ to $31.

Iomega, the manufacturer of computer disk drives that had a price/earnings ratio of 169 in mid-May when its shares hit a high of $54, tumbled $3⅛ to $22⅞ and was the most actively traded issue on the Nasdaq at midday.

Elsewhere, investors appeared to be preparing for a slowing of the economy as defensive consumer non-durable shares outperformed cyclical stocks.

The Morgan Stanley index of consumer shares fell 0.6 per cent by midday yesterday, while the counterpart index of cyclical shares was 0.8 per cent weaker.

Falling cyclical shares in the Dow included Boeing, off $1 at $89⅞, Caterpillar, $⅞ weaker at $67⅞, and General Motors, $⅞ lower at $52⅞.

Canada

Toronto was depressed by worries about a rise in US interest rates, after the firmer than expected US durable goods numbers during the morning.

The TSE 300 composite index was 30.55 down by noon at 5,039.00 in volume of 35.5m shares.

Gold issues fell as bullion prices dropped. Barrick Gold slipped 30 cents to C$37.25.

Fulcrum Technologies put on 10 cents at C$20 on news that it had signed a deal to buy software technology from America Online for an undisclosed amount.

Placer Dome, which unveiled plans to cut 100 of the 325 jobs at its Sigma mine, in an effort to curb high production costs, lost 30 cents to C$33.60.

Latin America

São Paulo rebounded to recoup Tuesday's 1.9 per cent fall and, by midsession, the Bovespa index was 1,202.45 higher at 62,027.

Analysts noted that Tuesday's profit-taking followed three sessions during which the market rallied 6.7 per cent and was prompted by concern that the telephone companies would not be mentioned today when the government outlined its privatisation plans until the end of 1998.

MEXICO CITY edged higher on continued bargain hunting and the IPC index was 15.02 firmer by midsession at 3,173.00.

SOUTH AFRICA

Industrial shares moved ahead on optimism built on a prime rate cut by three more banks, healthy consumer inflation data and peaceful KwaZulu-Natal local government elections. Golds, however, were depressed by a dull bullion price, although dealers said there were few sellers at the lower levels because of an expected upward movement in the gold price in the medium term. The overall index was up 22.1 to 6,913.9, industrials gained 28.6 at 8,172.8 and golds fell 20.9 to 1,791.1.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: June 21 1996	% Change over week	% Change on Dec '95	Local currency terms: June 21 1996	% Change over week	% Change on Dec '95
Latin America	(249)	582.35	+2.2	+12.9			
Argentina	(31)	917.78	+3.5	+14.6	552,352.07	+3.5	+14.4
Brazil	(66)	387.74	+8.4	+20.5	1,379.44	+8.8	+24.2
Chile	(43)	731.30	-0.0	-2.3	1,200.19	+0.1	-1.6
Colombia[1]	(16)	621.06	+1.9	+3.8	1,173.47	+1.5	+11.8
Mexico	(65)	521.23	-1.3	+15.0	1,701.70	-1.6	+19.0
Peru[2]	(21)	212.39	+1.2	+7.7	317.60	+1.4	+14.4
Venezuela[3]	(5)	502.26	-1.8	+50.2	5,439.60	-1.9	+108.4
Asia	(632)	283.44	+0.4	+13.5			
China[4]	(24)	59.85	+1.0	+10.6	62.86	+0.9	+10.6
South Korea[5]	(145)	*110.60*	*-2.0*	*-12.2*	*117.34*	-0.6	-8.6
Philippines	(35)	319.26	+2.7	+23.0	404.05	+2.8	+22.9
Taiwan, China[6]	(93)	145.05	-0.1	+29.8	150.39	-0.1	+30.2
India[7]	(76)	105.98	-3.1	+31.9	131.17	-2.3	+30.7
Indonesia[8]	(44)	116.33	-3.4	+6.1	147.22	-3.3	+8.0
Malaysia	(123)	320.19	+2.2	+18.1	295.06	+2.3	+16.1
Pakistan[9]	(25)	286.58	-0.3	+18.1	456.61	-0.3	+21.1
Sri Lanka[10]	(5)	100.97	-3.5	-3.0	122.59	-3.3	+1.4
Thailand	(72)	348.00	-2.1	-7.4	350.29	-2.0	-6.8
Euro/Mid East	(236)	142.72	+0.2	+0.8			
Czech Rep	(5)	73.29	+1.1	+22.1	67.50	+0.1	+26.9
Greece	(47)	240.80	-1.3	-0.3	395.77	-1.4	+1.7
Hungary[11]	(8)	169.86	-0.7	+71.6	304.51	-0.6	+88.2
Jordan	(8)	166.67	-1.2	-8.7	231.77	-1.2	-8.7
Poland[12]	(22)	693.52	+3.1	+62.7	1,190.04	+2.8	+79.7
Portugal	(26)	128.92	+0.8	+11.4	139.13	+0.8	+17.0
South Africa[13]	(63)	236.63	+0.4	-8.3	819.25	+0.6	+9.8
Turkey[14]	(54)	142.54	-0.9	+36.4	5,470.07	*+1.2*	+63.0
Zimbabwe[15]	(5)	577.89	-0.7	+37.6	549.11	-0.7	+45.6
Composite	(1118)	303.24	+0.9	+10.0			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

A warning was sounded yesterday that foreign investors might retreat from Bangkok's stock exchange if the country's sagging export growth was not reversed, and the high current account deficit showed no signs of narrowing. Thai Farmers Research Centre, a private research agency, added that improved economic indicators and a stable currency were necessary if the market was to recover in the second half of the year.

After a sharp improvement which began last November, the market reached a peak for the year on February 6. Subsequent declines left the SET index down 13.5 per cent by last *Monday*, when it plumbed a *1996* low.

The centre estimated that net foreign investment in the Thai bourse rose by Bt56.6bn during the first half of 1996, largely as a result of a strong foreign capital inflow during the first quarter. However, it warned that any doubts among foreign investors about the stability of the baht could hurt Thai stocks. Recent market speculation has suggested that the central bank might soon widen its daily baht trading range to discourage speculative imports of short-term funds that were used for arbitrage on the large gap between Thai and foreign interest rates.

● Dhaka saw a third straight session of profit-taking yesterday after the steep rise which greeted the new government's pledges to run the country on the basis of a broadly based consensus, to maintain free market policies and to restore law and order. The DSE all-share index rose by 8 per cent between June 11, the day before the elections, and last Sunday. One analyst suggested the market was likely to move swiftly *ahead again if the government, as expected, withdrew a restriction on overseas* investors from selling initial public offerings within one year. Foreigners were reported to have sold more than $60m worth of shares since the ban was imposed two years ago.

EUROPE

Financials take Zurich to all-time high

Strength in financials propelled ZURICH to an all-time high, the SMI index rising 28.9 to 3,723.5.

UBS bearers climbed SFr38 or 2.7 per cent to SFr1,280 in rumour driven trade. One rumour suggested that Mr Martin Ebner's BZ banking group wanted to buy CS Holding's Bank Leu, in return for which CS Holding would receive the UBS shares held by BZ.

Another rumour was that the bank might have sold its hospital group, Hirslanden, for up to SFr500m. A more mundane explanation was that the shares were driven by warrants due to expire in Mid-July.

CS Holding was SFr1.50 higher at SFr117.75 and Swiss Re registered shares picked up SFr22 to SFr1,280 on the view that both were recent underperformers.

Swissair added 1.2 per cent as it hurdled a key resistance level, and as recent consolidation presented a buying opportunity. The registered shares rose SFr23 higher at SFr1,215, off a day's peak of SFr1,235.

Analysts said that the shares overcame resistance at SFr1,190, which triggered buying, as had a reassessment of the May load factor data, reported on Monday, which initially disappointed some investors.

The Novartis partners overcame an early consolidation of their recent strong gains. Sandoz finished SFr9 ahead at SFr1,432, up from a low of SFr1,410, while Ciba was SFr2 ahead at SFr1,221, after SFr1,189, in spite of expectations that the European Commission was likely to impose conditions on the merger because of the company's strong position in the crop protection market. Roche certificates jumped SFr65 to SFr9,465.

FRANKFURT was unable to break through Tuesday's new Ibis highs. But banks improved, first on news that Deutsche Bank was considering the reduction or outright sale of some stakes in a number of industrial companies, and secondly on unchanged West German CPI figures for June.

Deutsche rose 55 pfgs to DM71.68 in a relatively strong sector, where the interest-rate-sensitive Bayerische Vereinsbank led with a gain of 90 pfgs, or 2.2 per cent, at DM42.08. Daimler, in which Deutsche owns 24.4 per cent, declined DM10.10 to DM823.80.

Another carmaker was hit by Europolitics, Volkswagen dropping DM8.85 to DM554.50 after the European Commission prohibited DM240.7m in investment aid promised to two former East German plants.

VW said that it would halt its plans for additional investment at its Saxon car engine plant in Chemnitz, and an assembly plant in Mosel.

June 26							THE EUROPEAN SERIES	
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1697.80	1697.20	1697.78	1698.01	1697.84	1697.66	1698.60	1699.10
FT-SE Eurotrack 200	1723.39	1722.26	1721.77	1723.11	1724.62	1722.75	1723.59	1723.45
	Jun 25	Jun 24	Jun 21	Jun 20	Jun 18			
FT-SE Eurotrack 100	1698.42	1693.57	1685.00	1684.62	1686.41			
FT-SE Eurotrack 200	1721.18	1722.72	1711.84	1726.53	1725.18			

Base value 1000 (26/10/90) [illegible] † Partial.

Euro 96, meanwhile, could do no more for Adidas. With the Germany/England semi-final to be played last night, the sportswear group fell another DM3.20 to DM126, a two-day drop of 5.3 per cent.

MILAN was pulled down by weakness in the insurance sector after hopes of an immediate interest rate cut were dampened by remarks from the Bank of Italy governor Mr Antonio Fazio. The real-time Mibtel index lost 81 to 10,535.

Among the insurers, Generali fell L604 to L35,101, Alleanza was down L416 to L12,980 and SAI gave up L299 to L14,951.

Against the trend, INA rose L27 to L2,297. The stock has held steady since the Treasury announced late last week that it would sell off a third and final tranche of shares in the insurer through a convertible bond issue.

Fiat slipped L46 to L5,153 in spite of upbeat remarks by Mr Cesare Romiti, the chairman, who told shareholders that while the Italian motor market had been difficult in the first part of 1996, the second half should show improvement.

PARIS, where the opening was delayed for three hours by technical problems, saw a slight technical correction. The CAC-40 index lost 5.15 at 2,118.28 in modest turnover of FFr3.84bn. BNP fell FFr7.70, or 4.1 per cent, to FFr179.90 after a two-day gain of 6.8 per cent last Friday and Monday. Eurotunnel dipped 35 centimes, or 3.9 per cent, to FFr8.55 following a 10 per cent gain since midmonth.

News-based moves included a fall of FFr7 to FFr706 in Peugeot: the carmaker's chairman said again that the business climate was difficult; Pechiney, FFr2.20 lower at FFr216.20 on caution over earnings prospects; and Pinault-Printemps Redoute, FFr30 higher at FFr1,787 after the broker Massonaud confirmed its positive recommendation of the retailer's stock.

STOCKHOLM balanced weakness in the US equity market, and its knock-on effect on Ericsson and Volvo, against recovery in Astra after Tuesday's losses. Overall, losers outweighed winners and the Affärsvärlden General index fell 5.3 to 1,975.2.

Astra A rose SKr6 to SKr293, but Ericsson B fell SKr4.50 to SKr141.50 on rumours of an *impending profits warning*, and Volvo B, US-influenced, slipped SKr3 to SKr150.

WARSAW rose for the fourth straight session, closing at a third consecutive 26-month high. *It was led ahead* by large-capitalisation stocks such as banks. The Wig index rose 191.2 to *13,861.9*.

Some of the day's best performances were seen in shares picked in a draw to start continuous trade on July 8. Elektrim rose 1.30 zlotys, or 5.9 per cent, to 23.20 zlotys.

MOSCOW hit yet another new peak, the Moscow Times index climbing 17.43, or 5.4 per cent, to 337.89, up by around 90 per cent since mid-May.

Traders said western investors were flooding the market with buy orders, convinced that Russian *President Boris* Yeltsin will win re-election next Wednesday, and that the *ousting of four hawks* from the president's team of ministers pointed to further reform.

Written and edited by William Cochrane and Michael Morgan

ASIA PACIFIC

Worried Seoul in third consecutive decline

Worries about the South Korean economy, and a heavy overhang of margin loans, took SEOUL into its third consecutive decline. The composite index closed 13.31 lower at 823.63, down 4.7 per cent on the week so far.

Fears that the economy was on a downturn combined with a margin loan overhang, valued at Won2,600bn, to put great selling pressure on the market. One broker was *looking for the index to fall* to 780 in the short term. Others argued for a rebound, hoping *for government intervention*, such as an expansion of the foreign stock *ownership* limit *and a postponement of planned* IPOs and rights issues.

Tokyo

The decline in the yen lifted large-capital steels and export blue chips, and the broad market gained ground, *writes Emiko Terazono in Tokyo.*

The Nikkei 225-share average was finally 69.63 up at 22,666.80 after moving between 22,572.85 and 22,750.70. Domestic institutions placed large-lot buying orders for steels and shipbuilders, and the rise in the dollar against the yen also helped other cyclicals.

Volume totalled 458.9m shares, against 476m. Traders noted large-lot orders from Daiwa Securities. Arbitrageurs also stepped up their buying in tandem with the futures market, while investment trust funds indicated interest.

The Topix index of all first section stocks rose 6.60 to 1,722.13 and the Nikkei 300 by 1.13 to 319.70. Advances led declines by 611 to 412, with 208 issues unchanged.

In London the ISE/Nikkei 50 index put on 1.26 at 1,533.00.

Foreign investors chased big internationals, and dealers looked for short term gains among high-technology stocks. Sony rose Y50 to Y7,260 and *Matsushita Electric Industrial* Y50 to Y2,060. Carmakers, however, came under profit-taking.

Honda Motor fell Y30 to Y2,980 and Nissan Motor Y16 to Y974.

Sumitomo Corporation, the trading house, fell Y14 to Y965, down 20.2 per cent since it announced that it had lost $1.8bn through unauthorised copper trading losses. Domestic and foreign investors had feared that the loss figure could be larger and Moody's, the US credit rating agency, said yesterday that it was including Sumitomo's short term debt in its ratings review.

Toei, the film company, rose Y82 to Y916. The company is *the second largest shareholder* in TV Asahi, the national television network of which 21 per *cent will be bought by a joint* venture owned by Softbank and News Corporation.

Among speculative favourites, Clarion, the car audio equipment maker, rose Y18 to Y668 and Hanwa, the steel trader, by Y38 to Y485.

In Osaka, the OSE average moved up 81.54 to 23,395.48 in volume of 71.2m shares.

Roundup

A pre-budget slide left BOMBAY *1.6 per cent lower.* The BSE-30 index shed 62.31 to 3,792.75. COLOMBO fell below *the 600 barrier, the CSE all*-share losing 4.86 at 599.10. But the traffic was not all one way. *United Motors rose SRs3.25,* or 12.6 per cent, to SRs29.

SINGAPORE investors sat on the sidelines, and the Straits Times Industrial index shed 14.10 to 2,284.96 in volume, traded through the Singapore dollar, of 48.9m shares, the lowest this year. KUALA LUMPUR had a harder time, and on more specific concerns. The KLSE composite index dipped 16.11, or 1.4 per cent, to 1,130.77 on interest rate worries, following the comments of deputy prime minister Mr Anwar Ibrahim on Tuesday that Malaysia was still con*cerned about inflation.*

JAKARTA reported active, foreign-led buying of bluechips. *The JKSE composite index* rose 8.58, or 1.5 per cent, to 592.79, after 596.61. MANILA saw late-session accumulation of selected B shares and put it down to foreign investors. The composite index gained 23.51 at 3,240.39, in heavy turnover of 3.7bn pesos.

HONG KONG rose on a better performance in the US bond market. The Hang Seng index closed 77.15 higher at 11,059.92 in flat turnover of HK$4.21bn. SHENZHEN Bs had a technical bounce, rising 2.90, or 3.7 per cent, to 80.94. After hours, a bourse official indicated that the authorities' ban on Chinese citizens trading B shares was unlikely to be *enforced in the short term.*

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

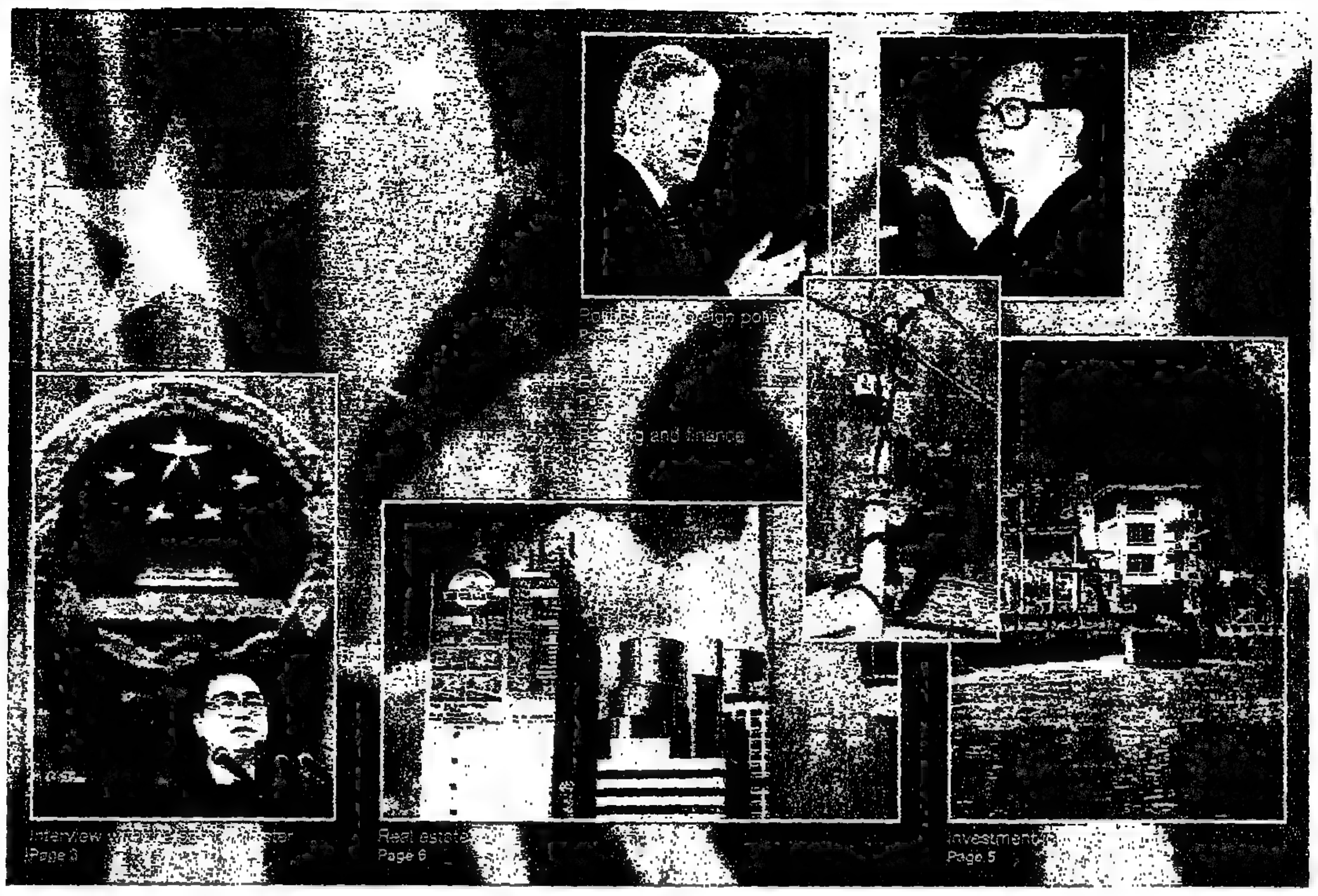
NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY JUNE 25 1996: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JUNE 24 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (79)	203.81	-0.2	196.10	140.53	162.35	171.36	-0.3	4.30	204.30	196.70	140.90	162.66	171.93	212.18	188.30	167.86
Austria (25)	185.16	0.2	178.13	128.37	148.29	148.23	0.2	1.92	185.86	178.94	128.15	147.98	147.92	198.28	165.71	169.26
Belgium (27)	208.24	0.4	200.37	143.59	165.88	161.61	0.4	4.11	207.49	199.76	143.09	165.20	161.22	216.81	186.06	165.51
Brazil (28)	178.53	-1.8	171.78	123.10	142.21	329.64	-1.8	2.01	181.80	175.03	125.36	144.75	335.67	181.80	123.97	130.66
Canada (99)	161.29	0.2	155.20	111.22	128.48	156.77	-0.1	2.40	160.94	154.95	110.99	128.14	156.93	168.12	134.14	143.82
Denmark (30)	299.84	0.0	288.51	206.75	238.84	240.59	0.1	1.86	299.79	288.63	206.75	238.69	240.40	305.17	276.05	277.14
Finland (23)	190.99	-0.6	183.77	131.70	152.14	188.36	-0.5	2.66	192.07	184.92	132.47	152.93	187.20	278.11	171.76	239.43
France (97)	195.37	0.6	187.99	134.72	155.63	159.10	0.9	3.02	193.65	186.63	133.69	154.34	157.75	198.39	167.70	186.89
Germany (60)	171.34	0.2	164.86	118.14	136.48	136.48	0.2	1.62	171.03	164.67	117.98	136.18	136.18	174.36	155.66	160.10
Hong Kong (56)	429.71	0.3	413.47	296.30	342.30	426.93	0.3	3.54	428.56	412.62	295.57	341.22	425.68	451.19	348.81	356.60
Ireland (16)	285.69	-1.1	274.89	197.00	227.57	254.53	-1.0	3.37	[illegible]	278.13	[illegible]	230.01	257.09	290.82	233.90	237.72
Italy (59)	82.84	1.0	79.71	57.12	65.99	94.94	0.7	2.32	81.99	78.94	56.54	65.28	94.34	84.58	67.22	76.60
Japan (481)	157.93	-0.2	151.96	108.90	125.81	108.90	-0.2	0.70	158.25	152.36	109.14	126.00	109.14	164.66	137.75	147.82
Malaysia (107)	562.15	-0.5	540.93	387.62	447.79	541.04	-0.4	1.66	564.76	543.75	389.50	449.67	543.46	595.09	425.77	649.26
Mexico (18)	1210.16	1.3	1164.41	834.45	963.97	10068.29	0.9	1.32	1195.04	1150.57	824.16	951.50	9978.50	1325.65	791.86	987.31
Netherland (19)	293.79	0.2	282.69	202.58	234.02	230.25	0.3	3.13	293.09	282.18	202.13	233.36	229.62	298.69	246.79	251.12
New Zealand (15)	79.45	0.0	76.45	54.79	63.29	62.18	-0.2	4.36	79.47	76.52	54.81	63.28	62.32	85.49	75.94	[illegible]
Norway (35)	248.19	[illegible]	238.81	171.14	197.70	220.32	-2.7	2.06	254.86	245.38	175.76	202.94	226.45	258.94	222.24	232.39
Singapore (44)	422.00	0.2	406.05	290.99	336.15	274.30	0.3	1.36	421.00	405.33	290.35	335.20	273.51	465.21	355.81	361.73
South Africa (45)	363.44	0.6	349.70	250.61	289.51	346.75	0.5	2.09	361.43	347.98	249.27	287.77	344.04	457.78	339.37	348.86
Spain (37)	182.60	-0.1	175.66	126.05	145.61	176.46	0.0	3.19	182.94	176.13	126.16	145.65	176.50	182.99	145.15	149.25
Sweden (46)	356.86	[illegible]	343.39	246.08	284.26	350.24	-0.7	2.43	358.16	344.85	247.03	285.19	352.63	380.77	288.46	289.58
Switzerland (38)	239.38	-0.1	230.33	165.06	190.68	187.52	-0.1	1.56	239.65	230.73	165.28	190.81	187.72	252.34	181.34	203.14
Thailand (46)	162.86	-0.4	156.70	112.30	129.73	160.29	-0.4	2.06	163.44	157.36	112.72	130.13	160.87	183.95	146.74	171.42
United Kingdom (200)	229.78	-0.8	221.10	158.44	183.04	221.10	-0.8	4.25	231.73	223.11	159.82	184.51	223.11	237.48	210.29	219.56
USA (627)	271.87	-0.1	261.59	187.46	216.56	271.87	-0.1	2.18	272.07	261.95	187.64	216.68	272.07	276.47	221.66	224.87
Americas (772)	248.36	-0.1	238.97	171.25	197.83	208.77	-0.1	2.18	248.54	239.29	171.41	197.88	208.95	252.48	208.00	205.54
Europe (714)	209.24	-0.2	201.33	144.28	166.66	184.08	-0.2	3.08	209.57	201.77	144.53	166.86	184.43	211.58	187.21	181.87
Nordic (136)	303.69	-0.6	292.20	209.40	241.90	263.14	-0.8	2.33	305.48	294.10	210.67	243.21	265.15	306.81	258.76	262.14
Pacific Basin (531)	170.56	-0.2	164.11	117.60	135.86	119.60	-0.2	1.15	170.85	164.49	117.83	136.03	120.03	177.01	149.86	157.57
Euro-Pacific (1545)	186.56	-0.2	179.51	128.64	148.61	144.21	-0.2	2.05	186.87	179.92	128.88	148.79	144.48	190.57	166.51	171.94
North America (728)	265.03	-0.1	255.01	182.75	211.11	264.30	-0.1	2.19	265.20	255.33	182.90	211.15	264.50	269.52	216.79	219.85
Europe Ex. UK (514)	192.56	0.2	185.28	132.78	153.38	160.98	0.2	2.46	192.16	185.01	132.53	153.00	160.66	193.57	169.65	172.71
Pacific Ex. Japan (330)	288.74	-0.1	277.82	199.10	230.00	249.26	-0.1	3.06	288.86	278.13	199.23	230.01	249.47	296.88	243.50	254.21
World Ex. US (1735)	187.61	-0.1	180.71	129.50	149.60	148.85	-0.2	2.06	188.08	181.08	129.71	149.76	148.92	191.55	167.38	172.63
World Ex. UK (2162)	212.07	-0.1	204.05	146.23	168.93	180.15	-0.1	1.91	212.17	204.27	146.32	168.93	180.28	213.05	181.86	185.45
World Ex. Japan (1881)	244.75	-0.1	235.50	168.77	194.96	232.13	-0.1	2.54	244.97	235.86	168.96	195.05	232.39	247.65	208.46	211.52
The World Index (2362)	213.73	-0.1	205.65	147.37	170.25	184.12	-0.1	2.11	213.97	206.01	147.57	170.37	184.37	214.70	184.48	188.41

Latest prices were unavailable for this edition.

هكذا من الأصل

China

As Chinese leaders reach a crucial stage in their programme of economic reform, **Tony Walker** examines their priorities both at home and abroad



Year of the watershed

China faces a critical 18 months in its continuing efforts to advance its market reforms, preserve economic and social stability and further integrate its economy with the global system. *There is little room for complacency.*

Indeed, 1996-1997, the first year of the ninth five-year plan (1996-2000), is likely to prove something of a watershed in the country's transformation from a rigid centrally-planned system to a market economy, and in China's relations with the outside world.

Challenges *loom on many fronts.* Among them will be the resumption of sovereignty over Hong Kong at midnight on June 30, 1997. China will need a deft touch in dealing with fractious Hong Kong democrats; the international community will be poised to criticise the first sign of Beijing's heavy hand.

Preservation of confidence in Hong Kong will be governed to an extent by a relatively trouble-free transfer of power. China's own credibility will be at stake, but it is not clear that the country's leaders understand fully the dimensions of the task.

In a special interview for this *supplement (see story, page 3),* the premier, Mr Li Peng, said that China is committed to a "stable transition and smooth transfer of government" and wants to "take over in a very dignified and honourable manner". These are positive sentiments, but the practicalities of ruling through surrogates will require a *greater degree of sensitivity* than Beijing has displayed so far on issues such as the planned liquidation of the popularly elected Legislative Council and proposed restrictions on press freedom.

The Hong Kong takeover will be followed later in 1997 by a Communist Party Congress – *an event held every five years,* whose importance in Chinese terms cannot be overstated. Adding immeasurably to the significance of the 15th Congress is the *fact* that it will endorse a new leadership and policies to carry China into the next millennium. *Officials have been talking* increasingly about these crucial "trans-century" tasks.

They include building the infrastructure necessary to underpin China's desires to become an economic superpower. *Apart from the ninth five-year plan,* with its emphasis on *ambitious* capital works projects such as the $30bn Three Gorges Dam on the Yangtze, which will be completed in 2009, China has formulated a longer-term 15-year strategy. This provides a blue*print for development* well past 2000 and envisages *expenditures* of up to $1,000bn on infrastructure in the decade and a half to 2010 – a figure that provides an indication of the scale of changes to be wrought in the next stage of China's economic revolution.

In the current phase, there is the risk that preoccupation with internal politicking in preparation for the congress will deflect attention from reforms. The leadership continues to be enmeshed in a difficult transition to a new generation to replace that of Mr Deng Xiaoping, the ailing 91-year-old patriarchal leader, whose lingering *departure from the scene is proving to be a heavy burden on his successors.*

But, at the same time, the country's rulers will be anxious to present China's best face not only to an international audience, but also to a domestic constituency. These pressures have implications for *both economic and foreign policymaking.*

Like their counterparts in the west, Chinese leaders are themselves running for office. As well as ensuring that the takeover of Hong Kong proceeds smoothly, they will want China's economy to be seen to have made a "soft landing" *after the problems of overheating and excessive inflation in* the 1993-1995 period.

A credit squeeze imposed in August-1993 has gradually wrung inflation from the economy: retail prices are forecast to rise about 10 per cent this year compared with 21.7 per cent in 1994. Economic growth has been *brought down* to about 10 per cent and the target for 1996 is 8-9 per cent.

But economic policymakers face difficulties over the next year or so in maintaining robust levels of growth while holding down inflation. Wor*ries have begun to surface about* the economy slowing more quickly than desirable, and inflationary pressures may build again in the second half of this year. However, the first five months' figures show a continued downward trend in *inflation and economic growth* being maintained. On the other hand, export growth has slowed markedly, raising questions about an *"overvalued"* yuan.

China cut interest rates on May 1 as part of efforts to ease pressures on debt-burdened state enterprises and to encourage increased economic *activity. Credit has been easier* since the last quarter of 1995, but central bankers insist that tight monetary policy will continue.

Working in favour of a steady economic course is what appears to be a fair degree of consensus among *leaders about the way ahead, although individuals may differ* on the pace of reform. By and large, China, in its economic reforms, is following the script laid down by the Third Plenum of the 14th Party Central Committee in 1993.

This established a framework for financial sector *reform and also addressed the vexed issue of public ownership* – a potential battleground in a system that remains nominally "socialist". The decision

> In the current phase, there is the risk that internal politicking will deflect attention from reforms

to preserve government control over key sectors helped define *those areas that could be hived off to the private sector.*

But reform of the state sector, half of whose enterprises are loss-making, is proving a "stop-go" affair. The leadership makes much of its commitment to the "re-structuring" of state-owned enterprises, but political worries about *unemployment* mean that progress is painfully slow. The World Bank, for one, is urging a more determined effort, arguing in a recent report* that speedier reform is critical to China's continuing economic transfor*mation.* The bank has also pressed Beijing to pay greater attention to improving central government finances, one of China's glaring weaknesses.

"Efficiency gains from economic reforms have played an important part in China's impressive growth performance since 1978. Harvesting these gains will be as important in the future, if not more so," the report said.

"To do this, the government will need to maintain the momentum of reforms in two strategic directions. The first would place greater reliance on market forces, with an emphasis on state enterprises and the *financial sector. The second would stress restoring the* health of government finances by raising government revenue as a share of GDP and shifting the focus of government expenditure policy toward such priority areas as health and education, poverty reduction, *infrastructure development, and environment protection."*

China's leaders appear convinced, however, that a "gradual" approach is most appropriate. "We think that the market plays a fundamental role in the allocation of resources; but in China, a socialist country, its role can only be brought into full play *under the government's macro-regulation and control,"* says Premier Li Peng.

Mr Li's message is clear: the leadership plans to keep a tight rein on economic, political and social developments. Priority will continue to be given to economic reform, but greater *emphasis will be placed on what the premier describes as* a "shift from an extensive growth economy to an intensive growth economy, or rather, change from quantitative growth to more efficiency-oriented growth".

Fine-tuning an economy is never easy, even in the most *sophisticated industrialised* countries. In China, which is at a relatively raw stage of economic development, the task is considerable. It is, however, a measure of the apparent growing self-confidence of China's leadership that it feels able to begin refining its priorities.

Apart from seeking to encourage more effective use of scarce resources, China has earmarked, in its ninth Five-Year Plan, expenditures of $300bn-400bn on improving power supplies, telecommunications, transport *and water conservancy. Some 15 to 20 per* cent of these funds are expected to come from foreign sources, including, increasingly, commercial borrowing.

One of the main aims of increased infrastructure spending (see story, page 5) is to overcome striking regional disparities – between relatively prosperous coastal regions, where the bulk of foreign investment is concentrated, and an impoverished hinterland. Improved communications is seen as vital to the process of nurturing the "creeping prosperity" that is making its way across the country from east to west.

Other pressures on the lead*ership to redouble efforts to* bind the country together include renewed concerns about "separatism" on China's frontiers. Drawing lessons from the break-up of the former Soviet Union, China has taken a strong stand recently against separatist activity in its far-west Xinjiang region and in Tibet. Beijing is also keeping a weather eye on Inner Mongolia, whose ethnic people need only look across their frontier to Mongolia itself to witness a fairly robust process of democratisation.

Worries about separatism are also linked to the Taiwan issue, *which continues to figure largest among* all Chinese concerns, outstripping even the economy in its impact on domestic leadership politics.

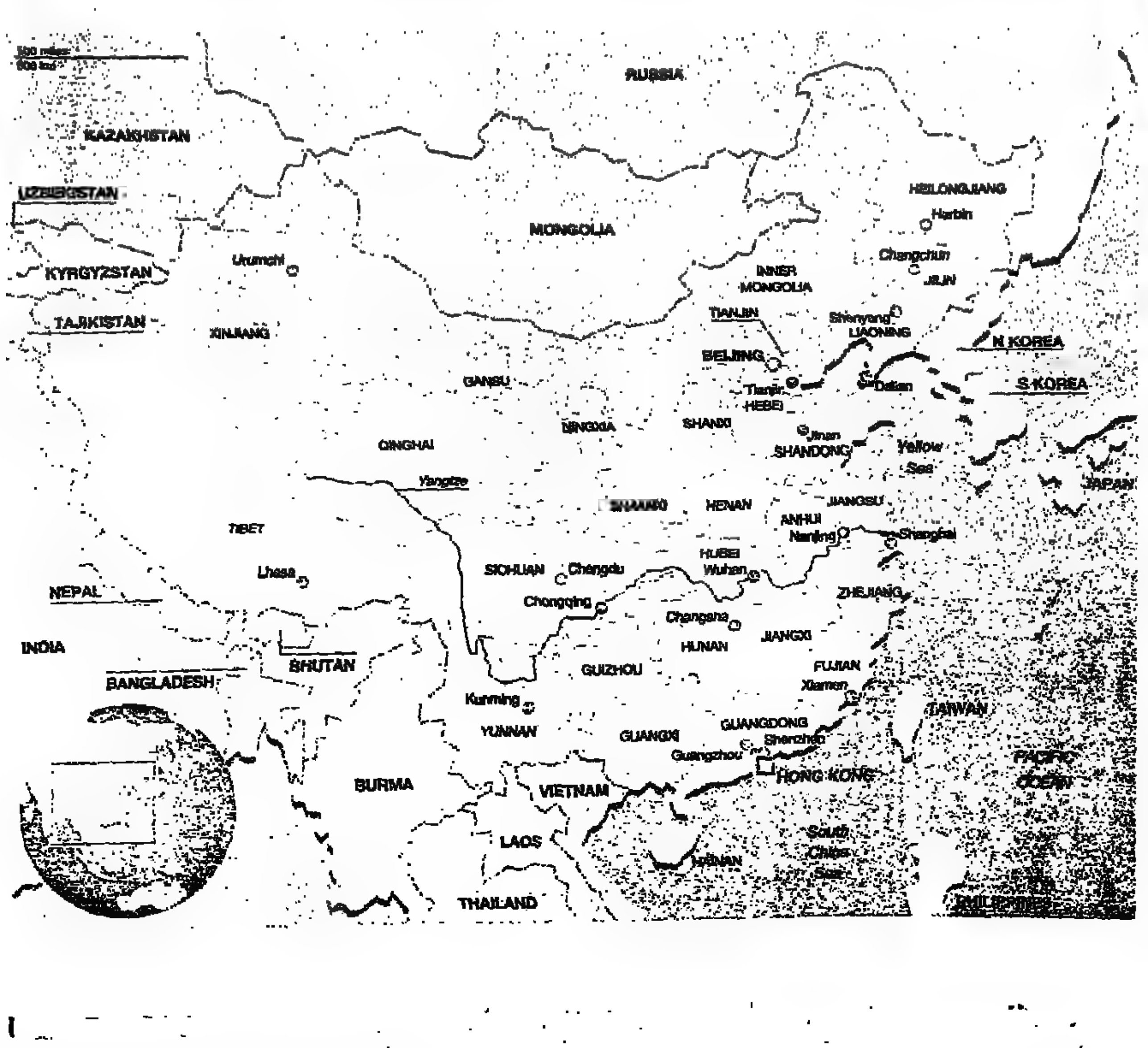
China's overheated response to last year's visit to the US by the president of Taiwan, Mr Lee Teng-hui, and to presidential elections this year is *related directly to leadership* manoeuvring in Beijing during a difficult political transition. No Chinese leader can afford to be seen as "soft" on the Taiwan issue, hence a tendency for aspirants to seek to "outbid" each other in fashioning hardline responses to Taiwan's attempts to secure more international breathing space. All the sound and *fury* during the March presidential poll, including missile tests into waters near Taiwan's main ports, also provided a platform for the Chinese military to flex its muscles both militarily and politically.

China's defence forces, which have been something of a "poor relation" during earlier stages of the country's economic transformation, seem likely to be given greater resources in the next period. China's conventional defence capabilities lag well behind its political and economic aspirations.

Tensions across the Taiwan Strait are certain to continue to be a feature of China's awkward dealings with the outside world, and the US in particular. Mr Li was not exaggerating when he said in his *FT* interview that concerns about Taiwan were at the "core" of problems with the US, *although he did sound a conciliatory note when he said that* Sino-US relations were "somewhat improved" compared with a few months ago.

In turn, angst in Beijing over Taiwan feeds an incipient Chinese nationalism that might suit the leadership, especially since discredited Communist ideology hardly provides a beacon for a modernising state. China's rulers are not only groping for an appropriate economic model with "Chinese characteristics", but are also facing the difficult task of refashioning political institutions to match the process of economic liberalisation. In these efforts, there is no guarantee of success.

**The Chinese Economy: Fighting Inflation, Deepening Reforms by the International Bank for Reconstruction and Development/World Bank, 1818 H Street, N.W. Washington, D.C. 20433, US.*



The president (third from left) and army officers. The influence of the military has been enhanced at a time of delicate political transition

■ **Politics:** by Tony Walker

President takes pragmatic line

Jiang Zemin is trying to keep all factions happy in the run-up to next year's congress

When the president, Mr Jiang Zemin, was photographed earlier this year wearing a *Mao* suit – a high-necked, military-style tunic favoured by earlier generations – his style of dress was widely interpreted as a sop to Communist party conservatives.

Indeed, Mr Jiang's choice of Mao-era garb coincided with an unusually tough speech in which he assailed an erosion in social standards. "We must strictly ban the cultural trash poisoning the people and social atmosphere," he said. "We cannot sacrifice culture and ideology merely for a short period of economic development."

This followed a similarly conservative statement on the role of China's state-controlled media. Journalists, he observed, had an exalted calling as servants of the state because they were "engineers of human souls".

These statements were clearly aimed at a conservative constituency and followed circulation late last year of a document sponsored by a former party propaganda chief that warned that rapid economic reform was sowing the seeds of the party's destruction.

Growth of the private economy at the expense of the public sector could ultimately destroy socialism's foundations and provide a platform for the emergence of a new political force hostile to communism, warned the document, entitled *Some Elements that Affect our National Security*.

But Mr Jiang, who is sometimes described as head of the "wind" faction in China's leadership – a comment on his shifting views – was playing a different tune in May. On a visit to Shanghai he told local officials: "In the process of promoting reform of state enterprises, we must encourage exploration, liberate our thinking ... boldly experiment and charge forward."

These were hardly the sentiments of a diehard conservative and indicate that in some respects politics in China is not so different from it is in the west. Mr Jiang, with the 15th Communist party congress looming next year (party congresses are held every five years), is running for office and is seeking to be "all things to all factions."

This is typical of the ebb and flow of Chinese politics as Mr Deng Xiaoping, the country's ailing 91-year-old leader, fades slowly from the scene. China's "third generation" of leaders is constrained by a lingering interregnum, but in the interests of self-preservation they are obliged to take their factional politics seriously.

In China, behind-the-scenes leadership manoeuvring tends to be a brutal game. The country is in for an interesting year politically, and Mr Jiang himself is certain to face tests of his leadership.

> Exercises against Taiwan seem to have given the military a more prominent role

One possible consequence of preparations for the congress is that the reform process will continue to slow. As a western ambassador observed: "With water from the congress backing up, people may be more reluctant to go out on a limb."

There is much at stake. Not only will the congress further refine policy to carry China into the next millennium, but perhaps more importantly it will endorse a new slate of leaders, including younger cadres, to assume responsibility in the new era.

Although Mr Jiang appears to be relatively secure, there may be moves in the next 12 months to whittle away some of his formal powers. It remains an anomaly of the system that he occupies China's three top positions – president of the state, general secretary of the party and chairman of the central military commission.

There is talk of establishing a new party structure and creating two vice-chairman posts, one of which might go to Mr Li Peng, who is due to retire from the premiership in early 1998.

Speculation has also focused on the possibility of making Mr Hu Jintao, a politburo member, secretary general of the party, a position occupied by Mr Deng Xiaoping in the 1950s. Mr Hu is the youngest member of the seven-man standing committee of the ruling politburo and is responsible for party affairs.

Under the present structure, there is no chairman or vice-chairman. Mr Jiang, as general secretary, is the party's number one office bearer.

The congress will also put its stamp on critical changes to the central military commission. Generals Liu Huaqing and Zhang Zhen, veterans of the Long March, are due to retire as vice-chairmen of the CMC, opening the way for younger generals to assert themselves.

The military appears to have secured a more prominent role for itself as a result of the exercises against Taiwan during the past 12 months. Its importance as the ultimate guarantor of state security also enhances its influence at a delicate moment of political transition.

At this stage, there is no conspicuous sign of the military overreaching itself. However, China's new generation of politicians, whose military credentials are weak or non-existent, have no choice but to pay careful attention to the views of the defence establishment. Military influence is not likely to diminish and may get stronger in this next period.

■ **Trade:** by John Ridding

Knocks before entry to the world club

Despite recent accords, China and its economic partners face further hurdles in reconciling their interests

China and the US have pulled back from the brink of a trade war over intellectual property rights, striking a deal at the final hour. But the broader task of reconciling the commercial interests of Beijing and its economic partners still promises to be a protracted and problematic affair.

Like Japan and some of the east Asian tigers before it, China has found that dynamic trade growth has been matched by an equally rapid escalation in trade tensions. Despite this month's agreement on IPR, wrangling continues on the terms of its membership of the World Trade Organisation, the renewal of its most favoured trading nation status with the US, and on some specific commercial spats.

Amid the discord, there is agreement on the stakes involved. Without China, says Mr Li Peng, the World Trade Organisation should rename itself the Regional Trade Organisation. The prime minister's point, that China is too important to be sidelined by the international trading community, is readily endorsed in the US and Europe.

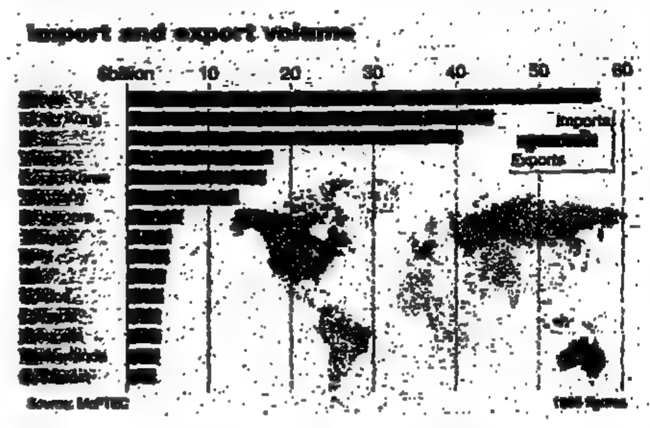
It is also backed by China's trade performance and prospects. Last year, exports totalled an estimated US$149bn, a rise of more than 20 per cent. Overall trade is forecast to rise from about US$280bn last year to US$400bn by the year 2000, according Mrs Wu Yi, minister of foreign trade and economic co-operation.

Within the overall pattern there has been an accumulation of trade surpluses. As the World Bank says in a recent report, China experienced a swing of 5 percentage points in its current account balance in two years, from a deficit of 3 per cent of Gross Domestic Product in 1993 to a surplus of more than 2 per cent last year. Although distorted by the effect of re-exports through Hong Kong (see chart, right), the surplus with the US has risen particularly sharply.

"The resulting imbalance is spawning pressure in the US to take corrective action," says the US-China business council.

The most recent figures could take some of the heat out of the issue. China recorded a trade deficit of US$1.2bn in the first quarter, reflecting the reduction of export incentives, a rush to beat an April deadline for tax breaks on imports of capital equipment, real currency appreciation and, in China's view, restrictive measures in overseas markets. Mr Li Zhongzhou, director general at the department of international trade and economic affairs, believes China may face a trade deficit this year.

The hands of trade warriors may also be stayed by the role of foreign companies in China's trade machine. Foreign invested enterprises (FIEs) have seen a steady rise in their role. According to the US-China business council, FIE exports totalled US$46.9bn in the first nine months of last year, an increase of 45 per cent, while imports climbed 23 per cent to US$49bn.



For both sides, however, the issues go deeper than numbers on the trade account. "It is not simply an economic or a trade matter," says Mr Li Peng. "There are some countries in the world, out of their political needs, that are trying to block China's entry to the WTO."

Chinese trade officials argue that the US stance has been partly dictated by presidential politics and partly by a perceived threat from the rise of China's economic power. They point to measures aimed at facilitating WTO entry, citing a 30 per cent reduction in average tariff rates in April. This, it is claimed, should clear the way for WTO membership.

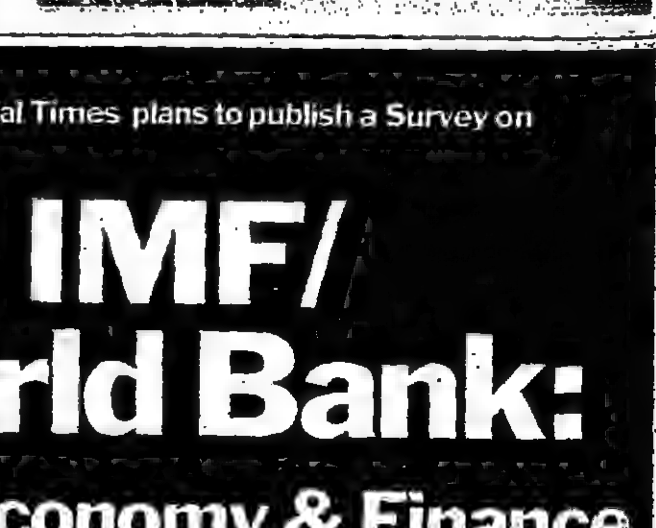
China's partners respond that they still see insufficient progress in trade liberalisation measures and market access, and point to specific problems that have arisen over recent months. Beijing's announcement, for example, that it will assert a monopoly on the dissemination of financial news data has been strongly condemned by Sir Leon Brittan, vice president of the European Commission. Speaking after a recent visit to China, he described the move as "an extremely inappropriate initiative" that contravened the principles of the WTO.

Despite the acrimony, trade officials hold out hope for progress over coming months. "There are some indications that the stand-off will be eased, particularly with progress on the IPR issue and MFN renewal," says one western diplomat. He sees potential for advances at the WTO trade talks in Geneva and, in particular, at the WTO ministerial meeting in Singapore at the end of the year. "That comes after the US presidential elections, so politics should be less prominent," he says. Prospects have also been brightened by progress on financial reform, notably last week's announcement of currency convertibility for leading current account transactions.

Whatever the outcome, the trials of recent months have prompted China to reassess its trade patterns and to focus on trade diversification. "We have to reduce our dependence on the US," says Mr Li at the trade ministry, predicting a rise in intra-regional trade and increased opportunities for European companies.

The recent award of an aircraft contract to Airbus, the European consortium, was seen as a blow to Boeing, the dominant supplier of China's aircraft needs, and a warning to the US about the costs of commercial disputes.

"We will not use Europe as a weapon against the US," says one senior Chinese official. "But we cannot be dependent on a country where there is a risk of trade wars." There is rhetoric in these words. But there is also the reality of a bumpy ride before tensions can be defused.



■ **Foreign affairs:** by Peter Montagnon

The mark of the bogeyman

Recent events have damaged China's image. Can it now re-open a dialogue with the US?

Of all China's relations with the outside world, that with the US is regarded as the most important, both because the US is the world's single remaining superpower and because of its importance to China's trade.

Thus the issue of Sino-US relations surpasses others, such as the recovery of Hong Kong – about which Chinese officials, in public at least, are quietly optimistic – or relations with Russia, strengthened by the recent visit by the president, Mr Boris Yeltsin. But the US relationship is also China's most torturous one.

Chinese officials and foreign policy analysts admit it is in trouble on several fronts, but say this is a problem of US-making, resulting particularly from Washington's apparent sympathy for Taiwan. China, they believe, can do little to improve the situation, although they are less clear what they expect from the US in practice. Thus they find it hard to foresee any substantial improvement, at least before the US presidential election.

It is not just the old questions of trade, human rights and Taiwan. A new element has entered the fray since the Taiwan Strait missile crisis in March: the sense, compounded by recent strengthening of the US-Japan security alliance, that the US is trying to make China into the region's bogeyman, or even something worse.

"We have no intention to take the place of the former Soviet Union and enter into a confrontation with the US," says Mr Chen Jian, assistant foreign minister.

There are no serious conflicts in the Asia-Pacific region, adds Mr Mu Huimin of the China Institute for Strategic Studies, but differences exist that can be resolved by dialogue. Mr Mu believes such dialogue should proceed on a multilateral basis and include the Association of Southeast Asian Nations. The creation in 1993 of the Asean Regional Forum, linking world powers in dialogue with regional governments, was an important step in this direction.

Into this benign approach, intrudes a harsher reality. China is still smarting over the US decision to allow Taiwan's president, Mr Lee Teng-hui, to visit the US last year, a slight that, some say, may have been made worse by the fact that a similar invitation has never been extended to China's president, Mr Jiang Zemin. Part of the trouble may thus be a feeling in China that the importance it attaches to the relationship is simply not reciprocated in the US.

The support the US president, Mr Bill Clinton, has given to renewal of China's most-favoured-nation trade status has helped, as has the defusing of the trade row over intellectual property rights.

But recent strengthening of the Japan-US security alliance has revived fears that US policy is directed against China. "The joint security treaty was the product of the cold war," says Mr Chen. "With the end of the cold war, countries in the Asia-Pacific region are seeking to maintain peace and security through dialogue and co-operation. The decision by the US and Japan to strengthen their joint security system goes against this trend."

Exchanges on both sides now often involve an emotional intensity that produces a knee-jerk rather than a rational response to each new situation.

Though worried about Japan regaining military prowess, for example, Chinese analysts have little sympathy for the notion that the stronger US/Japan alliance should enhance regional security by helping Japan resist any temptation to re-arm.

Some Western diplomats say that China's heightened sensitivity on matters of sovereignty reflects a deliberate nationalism whipped up to mask the regime's own internal lack of self-confidence. Others add that the level of weaponry used in the Taiwan Strait missile tests marked a deliberate escalation of Chinese aggressiveness and that that necessitated a strong response from the US, regardless of the risk of a further deterioration in relations.

China is also sending out mixed signals in the area of non-proliferation. While it now says it is prepared to drop its previous insistence on the right to continued peaceful nuclear testing in the wake of a comprehensive test-ban treaty, it is resisting arrangements for international inspection of its nuclear sites. And though it says it will stop testing after September, it carried one test in early June and plans another before then.

Clinton: his conciliatory gestures can't eliminate all Chinese fears

One spark of hope amid the confusion is that the US and China maintain they want to improve relations. Mr Anthony Lake, Mr Clinton's security adviser, is to visit Beijing later this summer. Mr Clinton and Mr Warren Christopher, his secretary of state, have both made conciliatory speeches recently, and the signs are that the signals have been heard.

"Sino-US relations are somewhat improved compared with several months ago," says Mr Li Peng, the Chinese prime minister. "It seems that people both within and without the US government have come to recognise the importance of China. That's why they advocate an engagement policy rather than an isolationist policy."

Other officials welcomed Mr Christopher's suggestion of regular Sino-US summits and more frequent exchanges at all levels of government. That might help restart a proper dialogue, but it will almost certainly have to wait until after November's presidential election. What happens after that will depend heavily on who wins.

■ **Economy:** by Peter Montagnon

Hard edge to 'soft landing' theory

Inflation is lower but export weaknesses and lack of revenue still blight performance

China has always been notorious for the violence of its economic cycles. This year, though, it is starting to look as though it may have achieved a soft landing from the inflationary boom that peaked in 1993.

Inflation has fallen sharply, with the consumer price index rising 9.8 per cent in the year to March compared with 25.5 per cent for 1994. Retail price inflation, which has a smaller food component, was even lower at 7.7 per cent, but growth has held up reasonably well so far. Gross domestic product rose at an annual rate of 10.2 per cent in the first quarter of this year compared with 11.2 per cent in the same period of 1995.

The good performance on prices allowed the central bank to announce a gentle relaxation of monetary policy in early May, with a cut of 0.98 percentage points in the one-year deposit rate.

Although these developments bear the hallmarks of a soft-landing, the jury is still out. Some economists fear that the People's Bank of China – whose governor Mr Dai Xianglong, refers to the interest rate cut as a "tentative, timely adjustment" – may have held on to its tight money policy too long. Mr Joe Zhang, economist at W. I. Carr in Hong Kong, argues that the central bank has stifled investment through its curbs on credit.

According to Mr Zhang, real growth in investment spending, currently running at around 5 per cent, is insufficient to replace worn-out assets so the capital stock of the country is shrinking. This, he says, will become clear as the economy continues to slow, and the authorities may then have to err on the generous side in rekindling activity. That would bring a risk of bottlenecks and capacity shortages, so inflation might quickly take off again.

Such views are echoed by other international economists. Some argue that the high level of inventories, estimated at 5 per cent of gross domestic product, will also be a drag on growth. But there is by no means universal agreement. Calling the turning point in any large economy is a notoriously hazardous task. In China it is made all the harder by the difficulty of judging the real policy stance.

Thus the optimistic school believes that the central bank, which remains publicly committed to a moderately tight money policy in the medium term, has in fact been quietly easing credit conditions for some time. Forward looking indicators, such as new loan growth – which was 14.6 per cent in the first quarter – suggest activity should start picking up again soon, says Mr Jim Rohwer, Asia economist at CS First Boston in Hong Kong.

Mr Rajiv Lall of Morgan Stanley says that, with retail sales still growing at around 15 per cent, China should have no real difficulty meeting its growth target for this year of 8 to 9 per cent, even at current depressed levels of investment. Inflation might pick up somewhat, though, because China will this year have to raise grain prices again to boost rural incomes and encourage production.

As for the central bank, the governor Mr Dai says it decided to lower interest rates because price pressures had been declining for several months amid weak demand for investment, consumption and exports. If the price level goes on decreasing, the bank might consider easing credit again later in the year by making additional loans available to the farm sector and for cheap housing. "But," says Mr Dai, "overall we're not going to change our monetary stance."

Quite what that means in practice remains unclear.

The price is now right. A dumpling seller in Shanghai: the cost of living has fallen — Sarah Murray

Though the central bank is firm in its commitment to the fight against inflation, it must also confront some political pressures. Next year will be a particularly important one for China, not only because of the return of Hong Kong to mainland control, but also because of the party congress later in the year.

It is a fair bet that the government will want the economy to perform well through this period, but it will be some time before any definitive judgment can be made as to how far the authorities have managed to fine-tune the cycle.

Besides, there are some other strains with which China still has to grapple. A striking feature of this year's economic performance has been the weakness of exports, which fell by 7.7 per cent in the first four months of this year.

An important reason for this was tax. The government cut Vat rebates to exporters from 17 to 9 per cent and the finance ministry then allowed delays to build up in the payment of the rebates. Arrears total Yn55bn, and officials say it may take two years to catch up. If this were the only problem affecting exports, its impact might be expected to diminish over time, but there are also fears that a rise in the real exchange rate, of some 12 per cent last year, may have been damaging.

Mr Dai says the exchange rate is determined by the market and reflects capital flows as well as trade. He says he expects it to remain stable. Mr Shi Guangsheng, vice minister of foreign trade, however, admits that the exchange rate level is causing difficulty for exporters, though he says it is not a key factor in export weakness.

World Bank officials say recent export performance has been worse among domestic manufacturers than joint ventures, which simply process imported inputs. This could be further evidence of the impact of a strong real exchange rate.

Partly because of this, the trade surplus is likely to shrink sharply this year from last year's $16.5bn. According to Consensus Economics, which calculates the average forecast from leading private sector economists in Asia, the current market expectation is for it to shrink to $7.5bn, but many economists feel estimates could be adjusted downwards, and some Chinese economists think trade will be no more than balanced.

China's current accounts, which last year were roughly in balance, may be less strong than at first sight appears. Morgan Stanley's Mr Lall points to the large $18.6bn errors and omissions line in the balance of payments statistics, some of which he says should be applied to the services account. In particular, it appears that Hong Kong investors have been remitting large returns on investments in China, a factor that may also be supporting the colony's economy.

At a more fundamental level, concern continues about China's poor level of tax collection. World Bank estimates suggest that tax revenues as a proportion of gross domestic product slipped further to around 11 per cent of gross domestic product last year from 12.4 per cent in 1994.

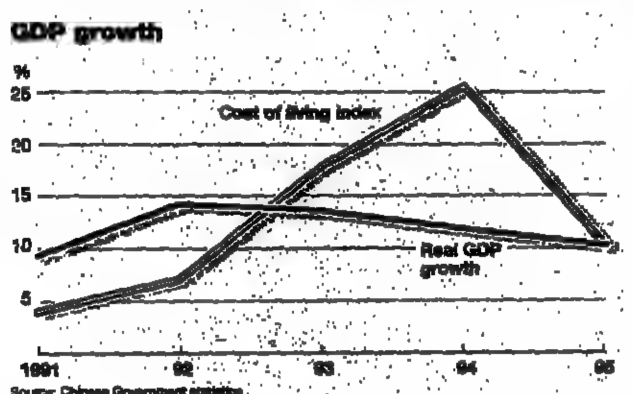
Most economists regard this as the central challenge facing the authorities: without more revenue, the government may not be able to afford much needed improvements in healthcare and education, or the social welfare support needed if state enterprises are to be reformed.

Perhaps surprisingly, though, China seems able to muddle through. Some progress appears to have been made with the reform of state enterprises. Smaller ones have been closed down or sold and people have become aware of the risk of bankruptcy, says Mr Fan Gang, an economic consultant. "A few years ago, we didn't even imagine that people would buy small companies. Now we accept that. In five years, we can deal with the medium-sized ones and in 10 years, maybe even the large ones."

Even some larger companies have been reining in their activities, cutting their employees' remuneration and making them work shorter hours. That way people's social benefits are protected, while they can seek at least part time employment in the private sector.

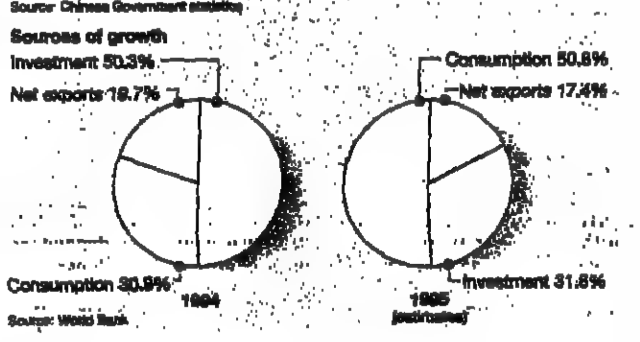
While the private sector remains able to take up the slack, such a process can continue, but it is painfully slow and involves continuing financial support for ailing state enterprises, often through China's chronically weak banking system. Without a reasonably high growth rate, the balancing act would quickly become impossible. That is another reason why keeping the economy from decelerating too far before it finally recovers is now an essential task, whether or not the outcome qualifies as a soft landing.

GDP growth



Source: Chinese Government statistics

Sources of growth



Source: World Bank

KEY FACTS

Area		9,561,000 sq km
Population		1.2bn
Head of state		Jiang Zemin
Currency		Yuan/Renminbi
Average exchange rate		1995 $1=Rmb 8.3499
		1996 $1=Rmb 8.3263[1]
	1995	**1996[2]**
Total GDP ($bn)	695.2	840.4
Real GDP growth (%)	10.2	8.9
GDP per capita ($)	574	683
Components of GDP (%)		
Private consumption	46.2	N/A
Total investment	34.7	N/A
Government consumption	12.8	N/A
Exports	21.7	N/A
Imports	-19.2	N/A
Annual change in:		
Consumer prices (%)	14.8	10.0
Wages (%)[3]	15.0	13.0
Ind. production (%)	13.4	13.5
Agriculture (%)	4.5	4.5
Services (%)	10.0	9.0
Reserves minus gold ($bn)[4]	75.4	N/A
Stock mkt index (% change)[5]	-14.29	38.43[1]
Total foreign debt ($ bn)	98.2	101.6
Foreign debt-service ratio (%)	9.7	9.9
Current account balance ($bn)	15.2	6.9
Merchandise exports ($bn)	125.7	135.7
Merchandise imports ($bn)	-110.6	-128.8
Trade balance ($bn)	15.1	7.0
Main trading partners (1995, %)[6]		
	Exports	**Imports**
Hong Kong	24.1	6.4
Japan	18.8	22.0
US	16.1	12.2
South Korea	4.7	7.8
Germany	3.9	6.1
Singapore	2.3	2.6
Taiwan	2.1	11.2

(1) Year to date. (2) EIU estimates unless otherwise stated. (3) Urban workers. (4) End period (5) Shanghai composite (6) Share of world trade.
Source: Economist Intelligence Unit, Datastream

INTERVIEW Li Peng, premier

Market plays important role

The prime minister speaks about the subjects that dominate Chinese thought and policy

Mr Li Peng, China's premier, spoke to the Financial Times in Beijing recently. What follows are his observations on key issues facing the country.

Li Peng: 'western-style democracy is not possible in China' — Reuters

Economic reform
"We think that the market plays a fundamental role in the allocation of resources. In China, a socialist country, this role can only be brought into full play under the government's macro-regulation and control. The Chinese government will resort to multiple means to exercise macro-control over the economy, such as through the plan, through fiscal policies, and through monetary policy."

Economic growth and monetary policy
"We practise a moderately tight monetary policy and this will remain unchanged. However, we will somewhat ease controls over working capital for the production of marketable goods."

Entry to the World Trade Organisation
"China maintains that if it is not able to join the WTO, that is of course a loss for it; but if the WTO rejects China, then that will also be a loss for the WTO. However, I cannot see the prospect of China's trade with other countries being affected if it is not a member of the WTO because China itself is a huge market. That is the reality. When I was in France, we signed the contract with Airbus to buy 33 Airbus planes; we did not do it through the WTO."

Preferential tax policies for special economic zones
"Our basic policy towards the state-owned enterprises in China remains unchanged. Corporate income tax for the foreign-invested enterprises is 15 per cent. I think this is fairly low compared with other countries in the world."

Foreign investment
"We want more investment in infrastructure; we also welcome co-operation in the technical transformation of small and medium-sized enterprises in light industries. In the services sector we are also ready to co-operate. But in the area of banks and insurance companies we are not ready to open on a large scale."

Relations with the US
"The United States has tried various means to interfere in China's internal affairs. The core issue in Sino-US relations is the question of Taiwan. If the United States can observe in deed not just in word the three Sino-US joint communiqués then it will be possible to further improve and develop relations between the two countries."

Participation in the Three Gorges hydro-power project
"China's biggest project is the Three Gorges project. But the EximBank of the US on the instruction of its government has said it will not provide loans to American companies that want to bid on the project. This policy of the United States actually kills the opportunities of American companies to participate. But it will lead to no loss to China because it can obtain the same technology from the Europeans or from the Russians."

Relations with Europe
"The Europeans have more favourable terms, more lenient terms. They do not attach political strings to co-operation with China – unlike the Americans who arbitrarily resort to the threat of sanctions or the use of sanctions. This is the reason that has prompted China to enter into close co-operation with the Europeans. If the Europeans adopt more co-operation with China – not just in economic areas but also in political and other areas – then I believe they will get more orders from China."

Policy towards Taiwan
"So long as the Taiwan authorities can abandon pursuit of 'two Chinas' and can return to the position of 'one China' not just in word, but also in deed, then cross-straits relations will be improved and strengthened in a peaceful manner."

Resumption of sovereignty over Hong Kong
"There are less than 400 days before Hong Kong's sovereignty will return to China. The die is cast. This also accords with the aspirations of the people. The basic policy of China is to ensure a stable transition and smooth transfer of government in Hong Kong. I can say that for all Hong Kong people – for each and every Hong Kong person – so long as he or she loves Hong Kong, loves the motherland, abides by the Basic Law, he or she can have a role to play in the future of Hong Kong."

Political reform
"Apart from our economic reform we will continue to promote our political reform. The purpose of political re-structuring is to make the government more efficient and to enable the people to play a bigger role to serve as masters of the state so that the capacities for developing the country can be mobilised. Some people in the west believe that along with economic development China will evolve more into a western democracy, but we think it is not possible here."

Interview conducted by Tony Walker, Peter Montagnon and John Ridding

■ **Foreign investment:** by John Ridding

FDI flood meets barriers

Tax reform and policy changes are setting new conditions for overseas investors

The flood of foreign investment that has buoyed China's economic expansion over recent years is now at a watershed. A more selective stance from Beijing, combined with fiscal and tariff reforms, is changing the conditions for direct investment and the destination of capital inflows.

"We are still encouraging foreign investment, but we are trying to divert it to bottlenecks and high-technology areas," says Mr Li Zongzhou, director general of the department of international trade and economic affairs at China's foreign trade ministry. Mr Li cites infrastructure, energy and advanced manufacturing among the priority areas.

Such a shift raises challenges not only for investors but also for the Chinese authorities, which must seek to develop new means of financing and guarantees for projects and try to resolve concerns about the investment environment. It may also herald a trend of fewer, bigger, projects and a cooling in the rate of investment growth.

Recently, the rate has been frenetic. Statistics show that in the first quarter of the year, foreign investment contracts rose by 87 per cent to US$27bn, underlining China's position as the dominant recipient of direct investment among developing countries. This came on top of existing commitments of more than US$390bn and actual investment of more than US$135bn by the end of last year.

Behind the first quarter surge, however, lay some special factors. In particular, investors were rushing to beat the April 1 elimination of tax and tariff breaks on imports of capital equipment. A longer-term picture (see chart above) shows a fall in the number of investment contracts alongside a continued rise in the value of utilised investment.

The elimination of these import incentives is part of the broader shift away from all-out investment promotion policies. A parallel shift is the reduced interest in labour-intensive and small-scale projects that dominated the early years of China's economic liberalisation. "They are not interested by $10m projects any more," Mr Alfred Shum, executive partner for China at the accountants Ernst & Young, says.

There are plenty of big projects on the table, many in the power and infrastructure sector targeted by the Chinese authorities. But the bigger the project, the bigger the risk, and many investors remain to be reassured about the terms and conditions for committing their funds. At the top of their list of anxieties are rates of return, management controls, guarantees for loans and the ability to transfer revenue streams into foreign currency.

Mr Li at the ministry of trade and foreign economic co-operation is confident that solutions will be found. Of particular significance, according to Chinese officials and their foreign investment counterparts, is the development of a Build Operate Transfer power plant project in the southwestern province of Guangxi. The project, which is now in the bidding stage, is touted as a potential model for future big projects and a yardstick for financing and rates of return.

The terms of such big projects are not the only concerns of investors. The US-China business council cites "opaque and unpredictable" methods used to enact regulatory changes as a problem in business planning. The scaling back of investment incentives, it adds, is likely to dampen investor enthusiasm and make marginal projects unfeasible.

At Jetro, the Japanese trade and investment promotion agency, there are misgivings about the pace of change. "We understand their intention to move to high technology but they are very much in a hurry," says one official. He believes the changes in tax and tariff incentives will represent "a big handicap" to foreign investors.

An additional worry is the growing influence of domestic companies in protecting their markets. "A lot of the state-owned enterprises are bleeding red ink and they have pushed for limits on foreign presence," says one businessman. Profitable state enterprises have also exerted influence. Foreign insurance companies, for instance, have seen glacial movement in market liberalisation, partly because of pressure from state insurers seeking to limit inroads into their business.

Many, however, see positive steps, citing accelerated moves towards currency convertibility which will facilitate the repatriation of profits. And it is a rare voice in the business community that claims the difficulties of access or operation outweigh the potential. "It remains one of the few markets with huge growth prospects, so there is no lack of interest," says Mr Shum of Ernst & Young.

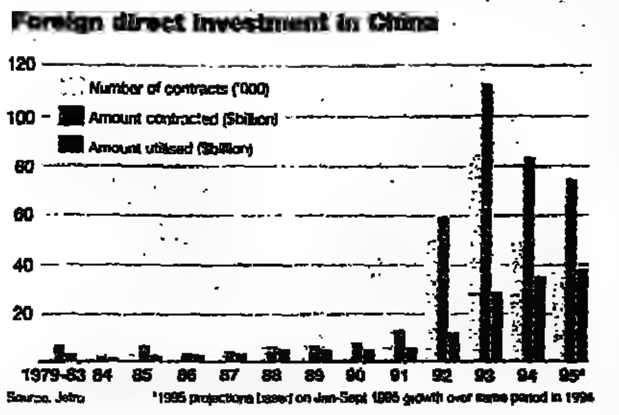
Over recent months, this interest has been focused increasingly on new markets within China, in terms of both products and location. Mr Victor Chu, chairman of the Hong Kong-based First Eastern Investment Group, argues that the consumer sector is poised for sustained and robust expansion as China's developing economy produces a broadening middle class. His group recently forged an agreement with Sinochem of China and several international chemicals groups with an eye on the plastics and by-products required for consumer products. Goldlion of Hong Kong has seen rapid profits growth on the back of rising expenditure on its garments, ties and related consumer products.

At the same time, investor focus has shifted somewhat from the traditional magnet areas. Guangdong remains the largest recipient of foreign investment, supported by funds from Hong Kong, the largest source and the main conduit of investment into China. But the share of funds flowing to the southern province has fallen from more than 40 per cent in 1991 to less than 30 per cent last year. Stronger growth has been seen in Shanghai, the Yangtze river delta, eastern coastal provinces such as Shandong and industrial areas around Beijing.

"By 2005, I believe that Hong Kong investors' attention will have shifted from Guangdong and the Pearl River Delta to Shanghai and the Yangtze Delta," says Mr Vincent Lo, chairman of the Shui On property and construction group. Mr Lo cites rising costs in Guangdong and Shanghai's traditional importance as a business base as the motors for change.

China's leaders would like investment to flow further afield, helping to develop the western and inland regions and to reduce disparities with the coast. So far, investors have been cautious, wary of the lack of infrastructure and logistical limitations. "There are opportunities, but it is certainly more difficult," says one French engineering executive. Given Beijing's more rigorous stance, it is an assessment that could be applied to China as a whole.

Foreign direct investment in China



Source: Jetro *1995 projections based on Jan-Sept 1995 growth over same period in 1994

Foreign direct investment into China and Regions (US$10,000)

Year	China	Guangdong province	% share	Shenzhen City	% share	Shenzhen S.E.Z.	% share
1987	231,353	80,299	26	27,379	12	26,486	11
1988	319,368	95,786	30	28,716	9	25,870	8
1989	339,257	116,644	34	29,252	9	27,144	8
1990	348,711	146,000	42	38,984	11	34,920	10
1991	436,634	182,296	42	39,875	9	33,487	8
1992	1,100,751	355,150	32	44,879	4	32,166	3
1993	2,751,495	749,804	27	98,900	4	67,221	2
1994	3,376,650	939,708	28	125,046	4	62,670	2
1995	3,773,600	1,018,028	27	130,989	3	N/A	N/A

Source: Jetro

Foreign direct investment into China by country (US$10,000)

Country	1988	1989	1990	1991	1992	1993	1994	1995
HK and Macau	209,520	207,759	191,342	248,687	770,907	1,786,125	2,017,481	2,049,900
Hong Kong	206,760	203,690	188,000	240,525	750,707	1,727,475	1,988,544	2,006,000
Taiwan	2,244	15,479	22,240	46,641	105,050	313,859	339,104	300,400
US	23,596	28,427	45,599	32,320	51,105	206,312	249,080	308,300
Japan	51,453	35,534	50,338	53,250	70,983	132,410	207,529	310,800
Singapore	2,782	5,414	5,043	5,821	12,231	49,004	117,961	185,100
Korea	-	402	1,267	3,960	11,948	37,381	72,283	104,300
Thailand	610	1,268	672	1,962	8,303	23,318	N/A	28,000
UK	3,416	2,848	1,333	3,539	3,838	22,051	68,884	91,400
France	2,257	460	2,106	963	4,493	14,141	18,204	28,700
Canada	602	1,995	804	1,076	5,624	13,688	21,605	25,700
Others	22,878	38,871	27,967	38,390	56,074	153,206	263,519	340,200
Total	319,368	339,257	348,711	436,634	1,100,751	2,751,495	3,376,650	3,773,600

Source: Jetro

■ **Banking:** by Tony Walker

Bad debts delay process of reform

Although making good progress, the sector is stymied by loans to the state enterprises

Mr Dai Xianglong, governor of the People's Bank of China, the central bank, says he is satisfied with progress towards reforming the country's antiquated financial system, but acknowledges there is still a long way to go.

Supervision of commercial banks is being strengthened, new banks are gradually being established to compete with existing institutions, open market operations are being introduced on an experimental basis and efforts are being made to deal with the non-performing loans of state enterprises.

"In 1994 we made a very important first step when we separated policy loans from commercial transactions by establishing banks exclusively devoted to policy lending," says Mr Dai.

"The second step was the promulgation of a commercial banking law which forbids any individual from interfering with bank lending."

The latter measure was aimed at powerful local officials who bullied banks into lending to unprofitable enterprises controlled by political cronies. Much of the bad debt problem is attributable to a combination of this practice and pressures on local officials to preserve jobs.

But although Mr Dai is sanguine about progress so far, the realities of reforming China's financial sector are somewhat starker. A vast gulf separates the country's financial system from those of most of its trading partners, as China makes the difficult transition from a rigid, centrally planned economy to a market-based system.

Open market operations are in their infancy and Chinese banks lag well behind the minimum standards required of international institutions under Bank for International Settlements rules. Capital adequacy ratios are far from meeting BIS requirements, and prudential practices do not correspond with international norms, although the Bank of China has begun to fall into line.

At the heart of China's financial sector difficulties are the bad debts of state enterprises. Mr Dai says that 20 per cent of total advances from China's "big four" specialised banks are "problem" loans, with 2 per cent of them irrecoverable.

Because China does not apply international standards to its debt classification, it is difficult to assess the extent of the problem. Independent estimates put the stock of doubtful or non-performing loans at 20-30 per cent of the loans portfolios of China's big state-owned banks. This could take years to unravel.

At some point the state will have to consider writing off a large portion of these debts and at the same time engage in a recapitalisation of the banks. China has set the year 2000 as a target for the "commercialisation" of its banks. The timetable will not prove easy, given the dimensions of the debt problem and the fact that China's specialised banks – Industrial and Commercial Bank, Agricultural Bank, Construction Bank and Bank of China – are huge and unwieldy institutions. Between them, they account for 80 per cent of banking business.

Industrial and Commercial Bank and Agricultural Bank each have about 500,000 employees and 50,000 branches and outlets. China will at some point have to consider breaking up these banking dinosaurs.

"An immense process of education and learning has to take place," says a representative in Beijing of the International Monetary Fund. "They need to continue expanding open market operations and freeing interest rates. Financial sector reforms will be constrained without further interest rate liberalisation."

The IMF representative says that among the most critical measures to underpin the success of open market operations is an acceleration of accounting reform, including the completion of a book entry system for the trading of government securities. There is also a need for greater transparency in the application of government regulations.

Standardisation of settlement rules for the infant foreign exchange market is also a priority. China launched a pilot scheme earlier this year in four locations – Shanghai, Dalian, Jiangsu province and Shenzhen – and there are plans to extend this nationally by the end of the year, according to Mr Dai.

All this is aimed at preparing the ground for China's move towards currency convertibility on the current account in time for an IMF/World Bank meeting in Hong Kong in 1997. Mr Dai indicates that China would like to be in compliance with the IMF's Article 8 on currency convertibility by the end of this year so as to be in good time for the joint session. Compliance would also help it to meet its obligations under the trade in services requirements of the World Trade Organisation.

Although its task is incomplete, China has worked hard at reform since it began opening to the outside world in 1978. As a recent World Bank study concludes: "Considerable progress has already been made in setting the foundation for a modern financial system. China's financial system today bears little resemblance to its predecessor before reforms began in 1978.

"The monobank system of the pre-1978 era has metamorphosed into a diverse set of institutions akin to the financial systems of middle-income market economies."

State commercial banks' low and declining capital-asset ratios (in %)

	1989	1990	1991	1992	1993	1994
Industrial and Commercial Bank of China	6.5	5.9	5.7	4.9	4.4	3.3
Agricultural Bank of China	6.3	5.4	4.7	4.0	3.0	3.6
Bank of China	6.4	5.0	4.8	4.5	5.2	4.4
People's Construction Bank of China	7.3	6.2	5.1	4.5	3.3	2.8

Source: Almanac of China's Finance and Banking, 1995

A branch of the Industrial and Commercial bank, a possible break-up candidate

■ **Debt and money markets:** by Peter Montagnon

Solving the capital conundrum

The authorities must develop the markets without encouraging speculative trading

China has long had difficulty ensuring that its financial market development can keep pace with its broader economic growth and its insatiable demand for capital to develop the country's infrastructure.

Hitherto, much of the focus has been on the nascent stock markets in Shanghai and Shenzhen, but now the country is slowly starting to develop debt and money markets in a way that might eventually make them more efficient and reduce its continuing reliance on foreign borrowing.

In separate developments this year, it has ended the interest rate cap on trading in its national interbank money market, launched limited open market operations by its central bank in the treasury bill market, and again started to issue longer term government bonds to the public.

Western bankers say the immediate impact of these measures is limited because much of China's financial system still relies on controlled allocation of credit at regulated rates of interest. Compared with a modern market economy, this leads to some extraordinary anomalies, such as the fact that rates on government bonds, a benchmark low in most countries, are higher than medium-term bank deposits.

The role of the interbank money market and treasury bill market is marginal at present, but, taken together, this year's measures mark a stride forward in putting in place the outline of a modern system that will eventually allow the market to set interest rates and correct such anomalies.

Economists expect China to issue about Yn195bn in domestic debt securities this year, up more than Yn43bn over last year. In recent years, the government has not issued bonds with a maturity longer than three years. This means a continual bunching of repayment deadlines and a maturity profile that is too short, says Mr Liu Zhongli, finance minister. The government thus decided this year to try longer-dated five- and 10-year issues.

But an issue of five-year bonds in May sold slowly despite a one percentage point premium over equivalent bank deposits. Bankers say the lack of interest reflects the withdrawal in April of inflation-linked supplementary interest payments on government debt and bank deposits, as well as the lower absolute rate of interest since monetary policy was eased at the start of May.

Against that background, the launch of a 10-year issue totalling Yn12bn in June looks bold, though it is too early to say how it will be received. Western bankers say one problem is that the market for debt securities remains dominated by retail investors.

> One problem is that the market for debt securities is dominated by retail investors

China still does not have an institutional fund management, pension and insurance industry to help create a liquid secondary market in debt securities and market-determined benchmark interest rates. Some bankers also say that the continued closure of the futures market in government bonds is a handicap for professional investors trying to manage risk. There is no chance of this market re-opening in 1996, says Mr Zhou Daojiong, chairman of the Securities Regulatory Commission.

China closed that market after two large securities companies ran up large losses in speculative trading last year. The conundrum for the authorities is to find a way of providing institutional investors with the range of products they require to develop their business without being continually blown off course by private speculation in thin experimental markets.

Mr Joe Zhang, economist at W. I. Carr in Hong Kong, says China "desperately needs" a deep domestic capital market to finance its infrastructure needs but he reckons it will take at least five years to create one. Meanwhile, China must rely on foreign borrowing to supplement the heavy inflows of foreign direct investment capital it has been enjoying in recent years.

According to the People's Bank, China's foreign debt rose to $107bn last year from $98.4bn at the end of 1994. However, although the absolute total is the largest in Asia, the country's debt service ratio is low at only around 7.25 per cent, which is bettered among Asian borrowers only by Malaysia.

Mr Dai Xianglong, governor of the People's Bank of China, adds that the debt total has to be compared with $140bn of disbursed foreign direct investment. Only a small proportion of the debt is short term, while China has only about $6bn in foreign portfolio investment outstanding so it does not rely on volatile short-term flows.

Moreover, official foreign exchange reserves and currency holdings abroad by banks add up to $122bn, which is more than the foreign debt outstanding, he adds.

Foreign bankers say that China is careful in controlling the flow of new borrowing in the international capital markets. The Ministry of Finance has been active in the international bond markets this year, even raising one issue of 100-year bonds in New York in March. But most of the borrowing emphasis is on infrastructure-related project finance.

China's main concern in such deals is to limit central government financial guarantees, forcing banks to take more of the risk directly.

Some tough battles are likely to be fought in this area, but, with China seen as a desirable borrower, banks that want to lend may have to make concessions, especially since leading Western export credit agencies are showing signs of relaxing their hitherto strict insistence on sovereign guarantees.

How China's budget deficit is financed (Yn bn)

	1993	1994	1995¹	1996²
Foreign loans	30.9	15.2	1.4	N/A
Treasury bonds	38.5	102.3	152.0	195.3
Central Bank credit	20.5	0	0	0
Total	89.9	117.5	153.8	195.3

Source: World Bank ¹Preliminary ²Budget forecast

Total foreign debt outstanding ($bn)

	1993	1994	1995
Total	84.2	98.4	107
Multilateral	10.7	13.6	16.7
Bilateral	13.7	15.4	N/A
Commercial	59.8	69.4	N/A

Source: World Bank, People's Bank of China

■ **INVESTMENT IN INFRASTRUCTURE:** by Tony Walker

The door to 'hard' credit creaks open

The government remains ambivalent about funding projects via foreign capital markets

Mr Gan Siyu, vice chairman of the state planning commission, could not be accused of understating China's challenges in modernising its infrastructure to underpin improving living standards for a population that will reach 1.3bn by 2000 – the end of the current ninth five-year plan.

He makes it clear that giving assistance to agriculture and taking steps towards reducing development disparities between China's wealthier coastal areas and its impoverished hinterland will be priorities over the next five years.

"Agriculture is still China's most important industry," he says. "Feeding the population is our primary task."

But other priorities also weigh heavily with economic planners in Beijing. These include further accelerated development of all facets of infrastructure, including roads, railways, ports, telecommunications, airports, the power sector and water conservancy. Basic industries such as petrochemicals also figure prominently in the government's plans.

Mr Gan estimates that investment in infrastructure alone will amount to around $300bn over the next five years. Requirements for foreign funds should reach about $10bn annually, or approximately 15 per cent of the total.

The more traditional sources of funding – what the vice chairman calls the "stock of soft loans" – are set to decrease. The World Bank and other international institutions are likely to apply stiffer qualifications for assistance to China because its rapid economic development is providing it with resources to raise funds in international capital markets. Mr Gan indicates that, consequently, China will be obliged to make greater use of commercial borrowing. It also plans to involve foreign investors more directly in infrastructure development through joint ventures and equity arrangements, including Build Operate Transfer schemes.

According to Mr Gan, however, it will resist providing sovereign guarantees for infrastructure projects since it does not wish to add to its foreign debt burden.

He believes that, despite this, foreign investors, especially those in the power sector, should find conditions attractive. "Infrastructure is a much more stable market than manufacturing," he says.

But Western officials think this may be a more optimistic view of the attractions of infrastructure investment than is justified. "Shifting foreign investment to infrastructure presents difficulties in comparison with export-oriented industries," says one. "There is often a long payback period and concerns about enforceability of contracts, access to foreign exchange, and a cumbersome approval process are all working against foreign participation in infrastructure, particularly in the road, rail, and power sectors."

The Economist Intelligence Unit (EIU) says in a recent report *Infrastructure in China: Plugging into Powerful Opportunities*, that China's task of pulling in around $10bn in foreign capital every year "will be considerable".

"Chinese attitudes to foreign capital are ambiguous, to say the least. The individual ministries, eager for the funds they need for speedy development, will often welcome substantial foreign funds and might be quite flexible in financial arrangements. But the central government is much more cautious and clearly would still like to see China avoid all but soft credit," the report says.

"This tension is becoming even more visible. In March 1995, in the wake of the Mexican peso crisis, China announced that borrowing from international commercial banks would be severely curtailed. However, this must be set against the increasing short-fall in investment owing to lack of funding, which has led to most areas falling behind schedule. As a result, more areas will be opened to foreign investment."

Indeed, Mr Gan comments indicate growing recognition at the centre of China's need to tap international capital markets and also to improve terms for investment in infrastructure if the country is to meet ambitious targets. But progress will continue to be relatively slow. China likes to experiment before opening its doors wider.

Expenditure in 9th FYP*

Sector	$bn
Power	60 - 100
Telecommunications	60
Railways	40 - 45
Oil/gas development	35 - 45
Refineries capacity	35 - 40
Roads	30 - 40
Coal	20 - 25
Ports	10
Airports	5
Total	295 - 370

*1996 - 2000
Source: EIU, US Embassy estimates, [illegible]

■ **Road and rail transport:** by Peter Montagnon

Long journey to efficiency

Upgrading road and rail transport is a crucial challenge for China. Better communications are necessary not only to boost economic efficiency but also to open up the poorer provinces of China's hinterland and help them to catch up in terms of living standards.

Nearly a quarter of the $255bn to $370bn in infrastructure spending projected under the ninth five-year plan will be invested in road and rail, with a further $10bn destined for port development, according to Western diplomatic estimates.

Partly because of the localised concentration of coal deposits in the northwest of the country, China's transport requirements are large. The volume of freight moved on China's roads is expected to rise 1.92 times by the year 2000 and that of people 1.72 times, Mr Huang says.

Under the ninth plan, construction of new roads will rise from 92,000km under the eighth plan to around 110,000km, while the rate of construction of new motorways will quadruple to some 1,800km, the minister adds. This is part of a longer term 30-year plan launched in 1991 to build 35,000km of trunk roads in a network of five vertical and seven horizontal high-grade roads linking main cities.

China must also invest heavily in maintaining and repairing its existing overused network. This means that while estimates for spending on new roads range around the $35bn to $40bn mark, the ministry's total road budget is scheduled to be around $65bn.

Meeting the cost represents a big problem, the minister admits. The ministry will generate revenue from taxes on motorists and from local government contributions. It will also transfer managerial authority on some existing highways to attract capital. There will be a need for foreign capital contributions, amounting to some 10 per cent of spending on new roads.

Some of the funds will be provided by official institutions such as the World Bank and Asian Development Bank, but China is also seeking to expand its recourse to the build-operate-transfer (BOT) formula, which has only been used on a small scale till now.

The BOT experience has not been an entirely happy one. In particular, the 123km Shenzhen-Guangzhou expressway linking Hong Kong to the capital of Guangdong province has proved a disappointment both to China and to Hopewell Holdings, the Hong Kong company that constructed it. Among the problems were cost-overruns, delays in construction, difficulty in securing local construction permits, and a shortfall of toll revenues after the road opened.

Trucks en route to Burma...around $35bn will be spent on new roads in the current FYP

Mr Huang says one of the problems with the project was that it was negotiated at local level. For BOT to develop, central government will have to take greater control. The project assumed that Hopewell would be able to develop real estate along the route, which added to its costs. "We are not in favour of combining road construction with real estate development," Mr Huang says.

By contrast, Mr Han Zhubin, minister of railways, is less coy about using real estate to lure outside investors into his industry. In part, this reflects the fact that, with large operating as well as capital cost, railways are a much less attractive proposition. "The investment tends to be large, the return rate is pretty low and the cycle is long," he says.

During the eighth plan, Mr Han says about Yn158bn was spent on new rolling stock and track, including the prestigious 2,536km line from Beijing to Shenzhen.

But China's network, on which the country relies heavily for coal transport, remains insufficient to meet demand. Electrification has been slower than expected because of the reluctance of the power ministry to commit supplies. Under the ninth plan, the ministry plans to build a further 8,100km of new track to bring the operating track total to 68,000km.

Total investment plans amount to some Yn300bn, Mr Han says. Part of the money will come from a small surcharge on freight transport, which the ministry wants to increase. Part will come from bank loans and part from loans from the World Bank, Asian Development Bank and Japan's OECF development agency. A limited amount of foreign capital will come from other sources.

The ministry has floated shares in the Guangzhou-Shenzhen railway, and there may be a possibility of involving outside investors in some local lines. Last year, Otoku Express, a Japanese transport company formed a joint venture with a Chinese partner to operate a sea-rail transport system that will help open up the Chinese interior to Japanese trade.

But a more fruitful use of foreign capital has been in railway equipment manufacture. China already has joint ventures with ABB and SKF and is discussing a venture with Bombardier of Canada.

Still not officially approved, Mr Han adds, is the construction of China's first high-speed line from Beijing to Shanghai. According to a World Bank study, the 1,310km line would cut the journey time from 17 to seven hours with trains operating at a speed of 250kph. But the total cost could be as much as $10bn and a lot of the equipment would need to be imported. With other pressing priorities it looks as though the high-speed train will face continuing delays.

■ **Telecommunications:** by John Ridding

Engaged in expansion

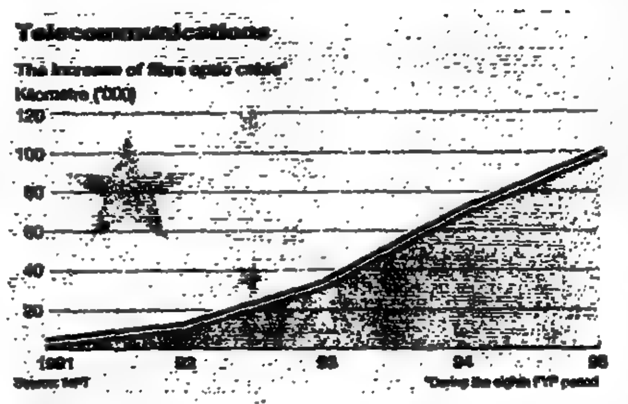
Callers to the southern Chinese city of Guangzhou have had to add another digit to their dialling this month. The change, which follows a similar move in Beijing and Shanghai, is just one sign of the expansion that has made China the world's fastest growing telecoms market.

China's five-year plan for the period to 2000 aims to add more than 64m new subscribers to the present total of about 41m, excluding mobile customers. Exchange capacity will double to 170m lines.

As part of the plans, China will add a further 300,000km *to the optical fibre network,* which will enable the completion of trunk lines and the linking of provincial capitals and prefectures.

Such a rapid increase – equivalent to an annual addition of almost half of the UK's lines – provides significant opportunities for foreign telecoms groups, particularly in the supply of equipment. But it also raises the questions of how the expansion will be financed, what will be the limits to international participation, and how the industry will develop in terms of competition and regulation.

The most immediate challenge lies in the funding required, *estimated by the* minister of posts and telecommunications, Mr Wu Jichuan, at a cool RMB100bn per annum. Part of the funding will come from preferential policies, reflecting the sector's priority status. The ministry of posts and telecommunications (MPT) can collect installation fees for telephones, which *are* equivalent to about RMB3,000 per unit and which can be used only for the construction of networks. Given the ministry's plans for new subscribers, about RMB30bn should be raised each year.



The state has also granted the MPT a high depreciation rate for its assets, which total about RMB260bn. Mr Wu sees a further RMB30bn coming from this source. Much of the gap will be bridged by domestic and international loans.

The physical construction of the network is no less of a challenge. However, foreign observers believe the targets are feasible. "At the rate they are going at the moment, I *think they will achieve them,*" says Mr John Butler, sales director of GPT China.

GPT is one of several international telecoms equipment groups that are competing for the Chinese market, often through joint ventures. But it is not a case of easy pickings. Margins are tight, and rivalry is fierce.

Gaining a presence in the market is equally difficult for foreign operators. Although a few have ongoing projects, notably Hongkong Telecom and Singapore Telecom, progress is slow and the scope of involvement is restricted.

"At present, the conditions are not ripe," says Mr Wu, referring to the prospects for foreign participation as telecoms operators. He cites market distortions, such as the low construction fees for networks and the low tariff structure for calls, as obstacles to foreign involvement. Those in the industry point instead to the political sensitivity of such a strategic sector.

There are some possible ways around restrictions. Recent agreements between one foreign operator and its local mobile telecoms partners in Hubei province have included some participation in the management of the network through a joint venture with an equipment supplier. But the prospect of significant liberalisation appears remote.

Domestic competition is closer to hand. But here, too, the process is slow. Value-added services, such as paging, have been liberalised, prompting a flurry of new providers. But for basic telecoms services, development has been less striking. In particular, the going has proved tough for *China United* Telecommunications (Unicom), which was launched *with* great fanfare in 1994 as the *country's second operator.*

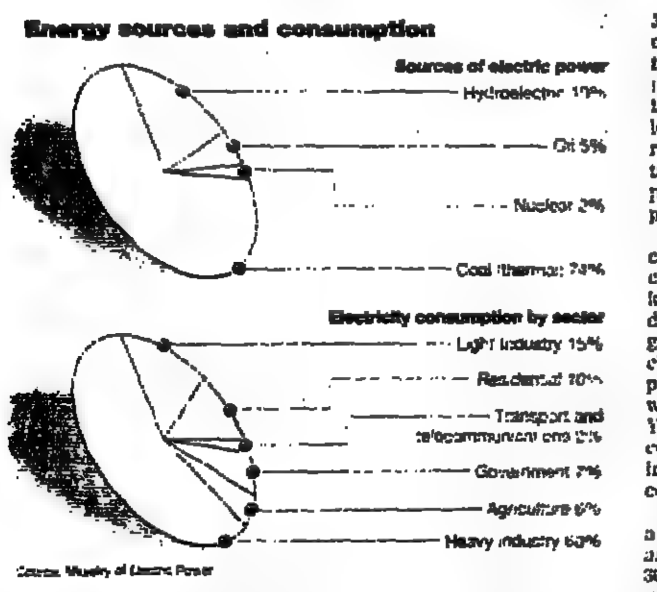
"As happened in other countries, the early *stage* of deregulation is quite painful. There is quite a lot of friction and the leading players want to maintain their monopoly position," says Mr Qin Xiao, president of Citic, the Chinese conglomerate that is one of Unicom's shareholders.

Competition is constrained by the fact that Unicom relies on the MPT for its exchanges and connections. It is also limited by the MPT's perception of its rival's role. "Both China Telecom (MPT) and Unicom are state-owned enterprises," says Mr Wu. "So they have larger areas to co-operate in than to compete," he adds, playing down the prospect of an *independent regulator* in the sector.

This is not to dismiss the benefits of Unicom's presence. *"They lit something of a fire* under the status quo and MPT has responded with improved services and strategies," says one industry executive. But for the time being at least, government policy is likely to mean the pace of deregulation trails the speed of expansion.

■ **Power:** by Tony Walker

Transmission impossible?



Mr Shi Dazhen, minister of electric power, has one of the *tougher jobs among China's* infrastructure ministers. With *the economy continuing to gal*lop along at an average growth rate of about 9 per cent, his task is to match the frenetic pace of development with new power generating capacity.

In fact, newly installed capacity in this present supercharged growth phase is barely keeping pace with existing demand let alone bridging the gap. Mr Shi expects little change in the ninth five-year plan period (1996-2000), during which investment is planned of Yn690bn($82bn) – 20 per cent coming from foreign sources, including "soft loans" and commercial money.

China plans to add 15,000MW a year to the present total of *around 200,000MW, reaching* 300,000MW by 2000. This would involve trebling capacity between 1987-2000, no small achievement in itself.

Power shortages, especially in the energy-starved southern areas where growth is most rapid, continue to be a drag on the economy. According to some estimates, insufficient supplies shave 1-2 percentage points from GDP growth.

Mr Shi puts China's massive challenge in providing adequate power in perspective by making comparisons with the developed world. He says that even if China met its 15,000MW target for the next five years this would still amount to a "very small per capita figure" each year – 100 watts for each individual among the country's 1.2bn people.

While China ranks second or third in the world in terms of installed capacity with 217,000MW (there is debate about whether it has outstripped Japan), *it is only 80th in* terms of per capita consumption. If it *were to reach* the present US level of installed capacity per head it would need 2.6mMW of generating *capacity, or five to six times its* target for 2010 of 500,000 - 550,000MW.

"We have always had a serious problem with the gap between demand and supply," says Mr Shi. "The development of the power sector has lagged that of the rate of GDP growth in recent years."

A western embassy study of the power sector notes that China has fallen short of its own targets for 15,000-17,000MW of new capacity each year. The study also pointed out that because the country's power plants have utilisation rates higher than world standards, *plant and equipment* degrade prematurely.

Inevitably, the study said, China is under pressure not *only to develop capacity, but* also to replace outdated and inefficient equipment. Mr Shi says that an important task in the next five years will be to upgrade existing power plants of less than 200MW in order to increase efficiencies. Meanwhile, the Ministry of Electric Power has banned construction of new plants of less than 200MW capacity.

According to the ministry's own estimates, 15-20 per cent of the demand for electricity cannot be satisfied in the present phase. Peregrine, the Hong Kong-based investment bank, says in a survey of China's power sector that by 2000 "the electricity shortfall will at best be around 11 per cent of electricity demand, despite the Chinese government's aggressive development plan".

This raises the question of why China has appeared so reluctant to facilitate foreign investment in power utilities under Build Operate Transfer (BOT) arrangements as a means of accelerating develop

Continued on page 6

■ **Professional and business services:** by Richard Tomlinson

Tough market for 'intangibles'

Despite growing demand for their advice, consultants still meet cultural barriers

In August 1989, just two months after the Tiananmen Square crackdown, Mr Peter Batey asked permission from the Chinese authorities to start a consultancy firm in Beijing. "They were astounded," he recalls. "At that time, they were used to foreigners asking to close down their businesses, not open new ones."

Seven years later, Mr Batey feels rather less lonely. The British Chamber of Commerce in Beijing, which he heads, lists 20 member companies, offering legal, accounting and business consultancy services. They include specialised firms with names such as East West Intellectual Property, as well as giants such as Price Waterhouse and Clifford Chance.

It is the same story at the American Chamber of Commerce, whose membership covers all the leading companies in the professional sector. According to Mr Batey, the latest US firms to pile into China are investment and market strategy consultants.

Before such companies can provide expert advice on China, they need to take their own crash course in mainland practices. "This isn't a society where you can rely entirely on the rule of law," says Mr Batey, with some understatement. "The best way to protect yourself is to build up a web of relations with the right people in government."

The gulf between rules and reality is especially troubling for overseas law firms in China. "I would argue that China has moved from having too little law and an uncertain situation to too much law and the same uncertainty," says Mr Edward Epstein, who runs the China group at Clifford Chance.

As an example, Mr Epstein cites the recent decision by Beijing to remove certain tax exemptions on the import of raw material and equipment by foreign investors. Clifford Chance had "an incredible rush" completing the paperwork for joint venture deals before the April 1 deadline, he says.

"We were in the middle of this process when the ministry of foreign trade issued an internal notice saying it would re-examine every one of those deals and revoke local approval if the contract were deemed 'improper'. It did not matter that under another regulation joint ventures with a start-up capital of less than $30m were supposed only to need local approval."

For international law firms such as Clifford Chance, Baker and McKenzie and Gide, Loyrette, Mouel, getting a foothold in China is hard. Since 1992, China's ministry of justice has authorised 57 overseas practices to open offices on the mainland, but they are not allowed to handle domestic business, or form joint ventures with local partners.

The situation for accountancy firms is less restrictive. They can set up joint ventures, and although most of their China business still comes from overseas clients, domestic demand for their services is growing.

At Price Waterhouse, the number of employees resident in China has swollen from fewer than 10 in 1992 to more than 800 today. Of these, more than 100 are expatriates, mostly overseas Chinese from Malaysia, Singapore, Hong Kong and Taiwan.

"I would think that in the next five years, assuming continuing economic growth in China, we would still be in the investment phase," says Mr Richard Gledhill, a senior member of PW's corporate finance team in London who visits China regularly. "But we would like the current investments to begin bearing fruit."

As proof that the prospects are good, Mr Gledhill points to PW's impressive multinational client list in China, the listings service it performs for domestic giants such as CITIC Pacific, and its work with the World Bank and the People's Bank of China on drafting new financial rules.

The problem for PW, like its competitors, is that although its China business is expanding, so are its overheads. Recently, overall stewardship of Price Waterhouse Dahua, PW's joint venture vehicle in China, was switched from the Hong Kong partnership to the international parent company. Mr Patrick Paul, the senior Hong Kong partner, was reported as saying: "It was difficult for the international Big Six firms to provide a subsidy of several millions of dollars without taking control."

The main burden in China, not only for accountancy firms but throughout the professional sector, is the cost of maintaining a large expatriate workforce. "Localisation" is the buzzword, meaning training local employees to fill senior positions, but this is less easy than it sounds.

"We find that after about three years, our Chinese staff hit a brick wall and just stop getting better," says one western executive at a professional company in Beijing. He blames the Chinese education system, which he says is better at turning out first-class scientists than graduates who can perform complex business tasks.

A similar culture gap may also inhibit the expansion of domestic demand for international business services, in spite of the inroads made by the accountancy firms. "The Chinese are only just beginning to wake up to the idea of consulting fees," says Mr Batey. "They don't like the idea of paying for intangibles."

Shadows over the exchange? There are fears that government interference could grow

■ **Securities regulation:** by Sophie Roell

The watchdogs bark

The move towards a system of tighter supervision could raise as many fears as it calms

The China Securities Regulatory Commission (CSRC) appears to be making slow but steady progress towards centralising control of China's disparate securities markets.

This year, the agency succeeded in wresting control over the B-share market – which trades foreign currency denominated shares reserved for foreign investors – from municipal regulators in Shanghai and Shenzen. It has now replaced the locally issued regulations that have governed the market in the past with a new set of implementing rules.

The CSRC has already established its authority over the 25 or so securities trading centres outside the main stock markets, which mainly deal in bonds and which were, until last year, also controlled by the local regulators.

Some loopholes remain, but China's regulators hope that these will be closed as quickly as possible by the passing of a formal securities law.

The price being paid for this process of "standardisation" – as CSRC officials call it – is a slow-down in market expansion. This year, there has been only one new B-share company approved for listing.

Mr Li Jiange, the CSRC's vice chairman, however, protests that: "The stock market will grow on consolidation of the market."

Few analysts deny that some regulatory consolidating is necessary. Last year, one of the country's premier brokerages lost virtually its entire capital after a punt on the bond futures market went badly wrong. The company had gone well beyond authorised trading limits and had been doing so for some time without being punished.

The CSRC, while technically in charge of futures markets, had avoided interference for fear of offending the ministry of finance, which typically considers any bond market its own domain. Municipal regulators in Shanghai say that while they had noticed abnormal activity, their "power of investigation and supervision was limited" and they were "not qualified" to check what was happening.

Such disagreement over who is in charge of markets is unlikely to disappear. Indeed, discussions about the role of other government departments in regulating the securities markets is one of the main reasons the securities law, after numerous drafts, has still not been finalised.

The difference is that the CSRC now has the upper hand – with nominal responsibility for most securities instruments and markets across the country. In March, it delegated authority to local government regulators, who will act as CSRC branches in day-to-day supervision of the markets – although staff will continue to be appointed by local governments.

For foreign brokers in China, who are limited to dealing in shares, the biggest regulatory headache is inadequate disclosure. Again and again, annual results have come out dramatically below brokers' expectations as companies have proved reluctant to tell visiting analysts the bad news.

Since the CSRC took charge and issued new B-share regulations, disclosure standards have been raised – at least on paper.

The Shanghai Stock Exchange also took the unprecedented step of suspending trading in the shares of six companies for a period of two days after they posted particularly poor annual results in April.

Although the companies had not been violating any specific disclosure standards, it was the first signal that the authorities were serious about making companies accountable to shareholders.

However, while foreign brokers welcome the CSRC's tougher stance, they are worried where the trend towards centralisation might lead. The precarious position of Chinese securities markets as "experiments" in an economy still subject to central government planning objectives has already led to criticisms of over-interference.

One key problem is the Chinese government's ideological commitment to state retention of a controlling stake in companies that are listed. In practice, this means investors cannot exert effective control over corporate performance, because they do not have the power to oust incompetent management.

Foreign investment bankers have also been astonished by China's insistence that the government, and not investors, should select companies for listing.

The government's role in the selection process has meant that cash-starved state-owned enterprises – chosen as much for policy as for commercial reasons – dominate the exchanges.

As the regulator, the main challenge facing the CSRC is to ensure that in future its own actions do not exacerbate market participants' complaints about government interference.

In July 1994, after a prolonged fall in A-share marketed, reserved for local investors, the CSRC tried to lift prices by announcing a market support package. The market jumped 122 per cent in less than a week on hearing the news. A World Bank report condemned the move as "unwarranted market manipulation of a major nature".

Mr Li blames the action on the agency's "lack of experience", and says the CSRC is aware that government interference in the market will give investors "the wrong signal". He adds that the CSRC now recognises that its "major responsibility is to make the rules, and to ensure that they are observed", and that "volatility of the market is not that important".

It is now a question of convincing market participants. Stock market officials say fears of a heavy-handed approach by the government continue to undermine market confidence.

■ **Real estate:** by John Ridding

Developers find safety in houses

A commercial property slump means companies are investing more in public housing

Two years ago, construction sites in Shanghai were working 24 hours a day, says Mr Sam Crispin, chief representative for Brooke Hillier Parker in the coastal city. "Nowadays, many are quiet, even in the day time."

The explanation is evident. Clusters of new and semi-completed buildings across the horizon point to increasing oversupply. Developers, caught between rising construction costs and falling rents, have decided to put some of their projects on hold.

Shanghai is the most extreme case, but it is not alone. In Guangzhou, and to a lesser extent in Beijing, the prime office and housing sectors are confronted with a downturn after years of heady growth. Developers are left wondering when the market will turn and whether to diversify into new areas, such as public housing.

While it is difficult to generalise about cities and market segments, the slump is clear. Grade A office space in Shanghai has fallen from around US$75 per square metre 18 months ago to about US$60 today. In Beijing, the decline has been less marked, but space can be rented for about 10 per cent less than it could be at the beginning of 1995.

Similar trends can be seen in residential prices.

Top-end real estate has been one of the few sectors spared from the reversal. "We have seen something of a quality shakedown, leaving the premium properties relatively unscathed," says one agent.

The main force behind the price falls is the prospect of a glut. Although demand is rising, as local businesses expand and foreign companies increase their staff presence in China, it lags far behind supply. "By the year 2000 the amount of office space in Shanghai will be in the region of 50m a square feet, 10 times the 1994 figure," says Mr Crispin at BHP.

Mr Peter Churchouse, managing director of Morgan Stanley Asia, argues that while Shanghai, with its emerging financial centre of Pudong, is set to emerge as a business powerhouse, it does not present an easy ride.

"We are looking at a very sharp decline as the new supply arrives," says Mr Churchouse. "Capital values could come down by 40 to 50 per cent in Shanghai, with a corresponding fall in rental values," he adds.

For the Chinese authorities, the fact that market conditions could have dampened investor ardour is good news. Mr Dai Xianglong, governor of China's central bank, says that official policy is to divert the direction of inward investment "from the overheated real estate sector to more important infrastructure and high-tech areas". Within the real estate market, priority is being placed on the supply of affordable housing so as to improve living standards in China's overcrowded cities.

In pursuit of this aim, local and central government have imposed restrictions on the construction of luxury apartments and office space. There has been a marked slowdown in the award of new permits, with much tighter management in Beijing and north eastern cities.

At the same time, plans have been launched to accelerate the construction of low-cost housing. The so-called Comfort Housing Project, launched early last year, has set an ambitious goal of building 25m new apartments by the end of the decade. The construction ministry is also weighing plans to convert unused commercial property into residential use.

Faced with the shift in government policy and with the situation in the market, developers are now looking to public housing. The Shui On group, one of Hong Kong's largest property concerns, announced in April that it would invest about US$500m over the next 10 years in building cheap homes in Shanghai. The project, the biggest of its kind in the city, will provide housing for around 80,000.

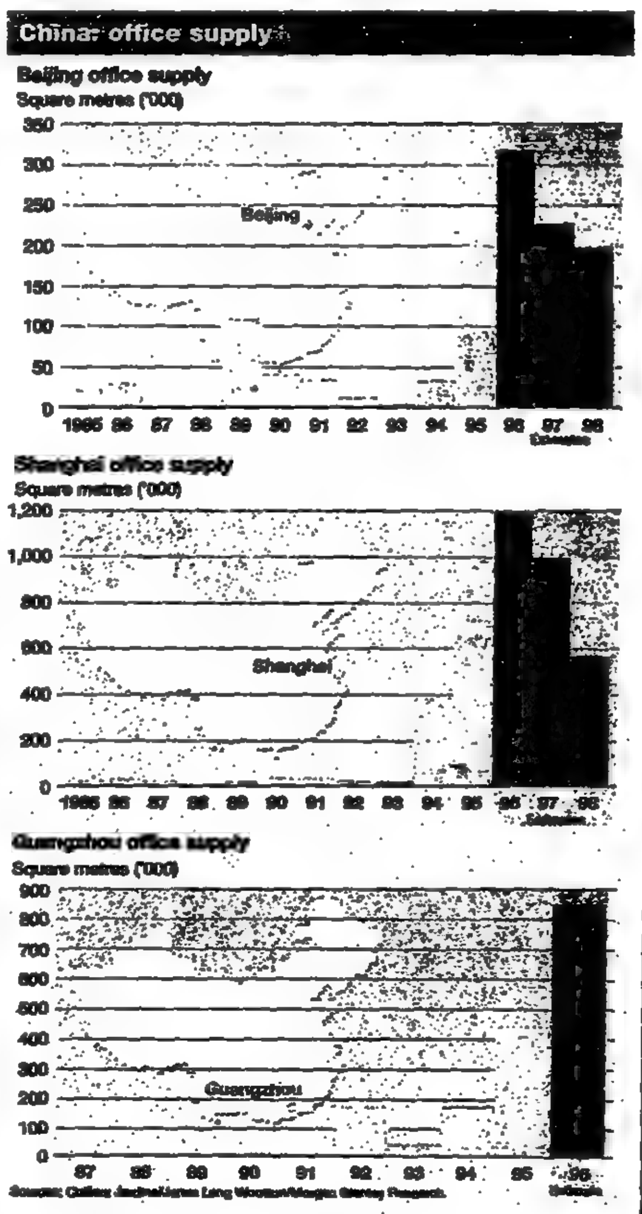
"Property development companies like my own have realised that they cannot go on simply concentrating on the construction of hotels, office blocks, and shopping malls," says Mr Vincent Lo, chairman of Shui On. "Our construction industry is ideally equipped to help China solve its housing problem," he adds.

Others have taken a similar view. New World Development is building low-rise apartments to house an estimated 60,000 residents in Wuhan, in central China. Some developers from Japan and the US are also eyeing the public housing market.

Mr Churchouse at Morgan Stanley sees some attractions in these projects. "Often they have a guarantee that the local authorities will pay 15 per cent above cost," he says, referring to projects under the low-cost housing schemes. "So there is no real development risk."

But there are other potential pitfalls, including the risks relating to the guarantees of local authorities and the ability to complete the projects swiftly to achieve an adequate rate of return. Here, in marked contrast with idle office sites, speed is of the essence.

China: office supply



Laibin plant to be power blueprint

Continued from page 5

ment. Mr Shi makes it clear that in spite of the dire need for additional capacity, China will continue to proceed slowly in absorbing direct foreign equity investment. It will also, he says, seek to lay down its own formula for BOT in line with local conditions.

China sees the Laibin project in the southern Guangxi region as critical to plans for greater foreign involvement and as a model for BOT developments. It will be the first big power plant to be wholly owned by foreigners, and bids have been lodged by six consortia representing powerful international companies involved in the supply of technology and equipment.

The consortia will be hoping that success in securing agreement for the relatively small (700MW) project will provide a platform for other successful bids. But negotiations are certain to be slow and difficult, and it may take several years for Laibin to come into operation.

Complex discussions will principally revolve around issues such as the tariff level and rates of return on investment, foreign exchange guarantees and financing. The process is likely to provide a bonanza for legal and financial consultants.

China's other power-sector preoccupation in the present five-year plan is the continued development of its transmission capabilities. Central to its plans to improve efficiencies will be the establishment of a national grid. A National Grid Construction company is being set up to manage the completion of a Chinese grid by 2009 – the year when the giant Three Gorges hydro-power project is scheduled to be in production.

One of the company's main tasks will be to integrate out put from the Three Gorges into the national network. Power from the massive dam on the Yangtze will account for about 4 per cent of China's capacity. The power sector is set for continuing and significant changes during the next 15 years.

THE R&D SCOREBOARD

Warning sign flashes

In a reversal of recent trends, this year's scoreboard reveals that UK companies' investment in R&D has slowed in comparison with that of their overseas competitors, writes Clive Cookson

From the UK viewpoint, the sixth annual R&D Scoreboard shows a disappointing reversal of the trend set over the previous five years, during which British companies had increased research and development spending more quickly than their overseas competitors.

The UK scoreboard, published today by the Department of Trade and Industry, shows that British companies spent 4 per cent more on R&D in 1995 than in 1994, while their sales rose by 9 per cent and profits by 18 per cent.

The international scoreboard reveals a 5 per cent increase in R&D spending (and 7 per cent sales growth) by the world's top 300 companies.

As Ian Taylor, UK minister for science and technology, points out, "a warning signal is flashing because, in aggregate, the UK's companies have been consistently investing at a lower intensity than their major competitors since the Scoreboard was first published in 1991".

This large gap in "R&D intensity" – the ratio of R&D spending to sales – had been growing gradually narrower until last year's reverse.

In 1995, the world's top 300 companies devoted some 4.4 per cent of sales to R&D – compared to an average of 2.5 per cent for the 18 UK companies included in this group and 1.7 per cent for all companies in the UK scoreboard.

The raison d'être of the scoreboard is the deep-seated belief by industrial policy-makers that the UK's competitiveness would improve if its companies invested more in R&D.

Richard Freeman, chief economist of ICI, expresses this view in his introduction to this year's scoreboard: "The importance of technological activity and innovation for the UK's competitiveness and capacity to create wealth cannot be overstressed. Nor can there be any doubt that unless UK companies increase their R&D investments faster than their overseas competitors, the UK will lose competitiveness in world markets over the longer term," he says.

"Although R&D is just one input to the innovation process," Mr Taylor says, "in many sectors R&D is a key component – a necessary but not sufficient ingredient in companies' innovation strategy."

The DTI wants companies and their investors to use the scoreboard as a benchmark to compare their R&D investment with competitors. If they are being outspent by competitors with a similar mixture of activities and business goals, "they should be able to prove to their investors that they are more effective at exploiting their R&D than their competitors," Mr Taylor says.

Valid proof does not include vague claims that your scientists and engineers are better than your competitors', he adds. Nor is it valid for global companies based in the UK to claim that lower R&D costs – particularly British researchers' salaries – justify lower spending. Chris Floyd, head of the technology and innovation management practice at Arthur D Little, the international consultancy, says: "Variations in R&D costs from country to country are small; any cost advantages in the UK are marginal."

Mr Floyd shares the feeling among UK-based technology managers that the scoreboard is a worthwhile exercise but he warns that benchmarking by comparing R&D intensities may not be as straightforward as the DTI suggests.

> There are still discrepancies in the way companies add up their R&D spending

Despite continuing efforts to impose international accounting standards, there are still discrepancies in the way companies add up their R&D spending. For example, some international groups follow the US practice of including tooling and engineering costs for new products – which do not count as R&D in the UK.

While Company Reporting, the Edinburgh consultancy that prepares the scoreboard for the DTI, adjusts the data to exclude these engineering costs as far as possible, it concedes that there may still be overstatement of overseas R&D figures in relation to the UK.

However, such discrepancies in accounting cannot explain fully the huge variation in relative performance of different UK industrial sectors.

Pharmaceuticals is the only significant sector in which UK companies match their international competitors in R&D intensity, with spending at just over 12 per cent of sales. It also happens to be the only science-based sector in which the UK still has a clutch of world-class competitors.

The drug companies account for one third of corporate R&D spending in the UK, and Glaxo Wellcome, the giant formed last year when Glaxo took over Wellcome, is responsible for 13 per cent alone. When the last scoreboard was published a year ago, there was widespread apprehension that GW would cut the two companies' combined £1.2bn R&D budget, as part of the post-merger rationalisation process, hitting the overall UK performance.

In the event, GW has cut R&D staff and is closing Wellcome's former laboratories in Beckenham, Kent. But it is holding overall spending steady, as the group is investing heavily in robotics and automation in-house and is spending more on external collaborations with universities and biotechnology companies.

In other important sectors, *such as engineering, electronics* and chemicals, most UK companies invest far less in R&D than *international* competitors. In engineering, for example, the UK average is 2 per cent of sales – half the *international level.*

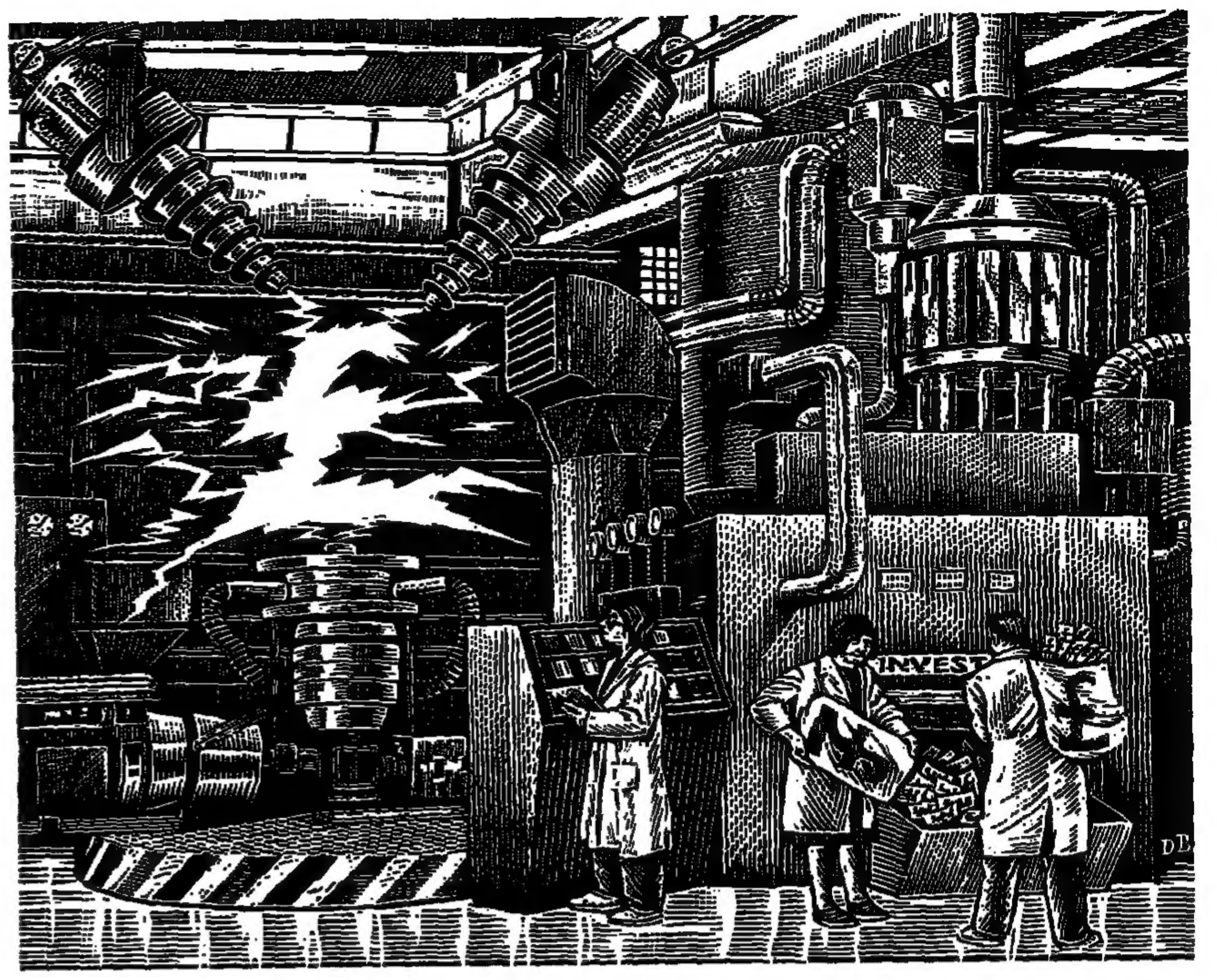
However, as Mr Taylor points out, there are isolated *examples of successful "world class"* companies, large and small, across the UK scoreboard, which invest in R&D at comparable intensities to their overseas competitors.

Among the large companies, *the most spectacular performer* is Reuters, the media and financial information group. Its *R&D spending* – mainly on software development – leaped by another 20 per cent last year to £191m; the figure in 1992 had been only £78m.

Much further down the scoreboard, beleaguered Yorkshire Water stands out for having increased R&D spending by 218 per cent from £1.7m in 1994 to £5.4m in 1995.

At first sight, this seems like a prompt response to last summer's drought crisis. But then look at the Yorkshire Water's 1993 spending: £5.0m. This pattern of slash-and-boost may indicate the state of mind that got the company into such trouble.

These are just some of the interesting corporate stories revealed by a careful reading of the scoreboard.



R&D EXPENDITURE: RANKING OF TOP 300 INTERNATIONAL COMPANIES BY SECTOR

	Current R&D Spending £'000	% change	Sales £m	R&D % of sales	Cost of funds £'000	R&D as % of COF	1994 £'000	1993 £'000	1992 £'000
International: All companies composite	124,749,031	5	2,838,571	4.4	104,182,112	119.8	118,423,078	116,724,491	112,805,413
1 Breweries, pubs & restaurants	103,145	-5		7		-8	108,446	104,225	96,595
Kirin Brewery, Japan	103,145	-5	5,756	1.8	118,506	87	108,446	104,225	96,595
2 Building materials and merchants	474,094	1		1		4	471,249	464,489	440,641
Compagnie de Saint-Gobain, France	182,409	-1	9,260	2	485,628	38.2	184,253	183,453	180,565
Sekisui Chemical, Japan	175,944	2	8,387	2.8	78,418	224.4	173,059	169,456	162,756
Corning, USA	115,741	2	3,422	3.4	192,386	60.2	113,937	111,490	97,320
3 Chemicals	17,597,534	3		7		9	17,158,120	16,689,118	16,295,272
Hoechst, Germany	1,585,565	3	23,479	6.7	767,887	203.9	1,516,065	1,367,583	1,306,812
Bayer, Germany	1,466,564	3	20,061	7.3	738,457	198.6	1,429,664	1,420,684	1,393,213
Ciba-Geigy, Switzerland	1,111,111	-8	11,586	9.6	507,136	219.1	1,204,030	1,232,577	1,315,421
BASF, Germany	939,584	9	20,803	4.5	589,268	159.4	862,298	870,468	921,789
Rhone-Poulenc, France	929,696	6	11,523	8.1	703,265	132.2	878,858	843,562	785,217
American Home Products, USA	872,705	66	8,615	10.1	1,030,411	84.7	528,272	426,825	355,822
Sandoz, Switzerland	863,140	-6	8,532	10.1	534,029	161.6	915,197	975,210	837,380
Pharmacia & Upjohn, USA	807,397	8	4,476	18	340,306	237.3	748,908	738,856	606,515
Bristol-Myers Squibb, USA	713,641	-2	7,716	9.2	1,000,257	71.3	726,523	697,539	639,572
EI du Pont de Nemours, USA	687,234	2	27,156	2.5	1,368,671	50.2	674,352	729,098	822,491
Dow Chemical, USA	520,417	-36	13,010	4	779,337	66.8	812,186	808,965	830,220
AKZO Nobel, The Netherlands	446,801	-1	8,633	5.2	334,984	133.4	451,623	373,272	373,272
Boehringer Ingelheim, Germany	432,004	4	2,808	15.4	37,800	1142.9	415,804	382,953	367,203
Monsanto, USA	392,245	-3	5,327	7.4	268,581	146	403,194	419,286	403,838
Mitsubishi Chemical, Japan	380,885	14	8,366	4.6	230,941	164.9	334,055	334,679	333,431
L'Oreal, France	352,307	12	7,029	5	156,988	224.4	313,586	286,192	283,144
Sumitomo Chemical, Japan	345,582	-3	6,106	5.7	204,456	169	356,515	366,524	367,148
Warner-Lambert, USA	322,813	10	4,534	7.1	305,874	105.5	293,700	298,433	304,972
Solvay, Belgium	251,446	-5	5,739	4.4	270,574	92.9	263,788	268,679	262,021
Kao, Japan	249,982	8	4,976	5	82,085	304.6	231,241	223,960	218,472
Merck KGaA, Germany	243,317	13	2,547	9.6	80,686	301.6	215,327	221,852	157,051
Goodyear Tire & Rubber, USA	237,856	8	8,479	2.8	183,305	129.8	219,824	206,105	208,905
Asahi Chemical Industry, Japan	233,020	-7	7,211	3.2	129,336	180.2	251,821	268,305	277,097
Dainippon Ink & Chemicals, Japan	212,222	2	5,307	4	191,535	110.8	207,828	160,134	150,481
Toray Industries, Japan	204,317	-2	5,825	3.5	172,210	118.6	208,489	213,514	207,926
Imperial Chemical Industries, UK	185,000	1	10,269	1.8	382,000	48.4	184,000	177,000	189,000
Henkel, Germany	166,051	0	6,369	2.6	172,287	96.4	166,051	180,901	186,301
Teijin, Japan	153,184	-2	3,540	4.3	101,786	150.5	156,758	157,792	151,080
PPG Industries, USA	152,260	8	4,545	3.3	208,360	73.1	140,474	129,580	130,748
DSM, The Netherlands	138,621	-1	3,948	3.5	148,886	93.2	140,630	158,702	171,166
Rohm & Haas, USA	129,460	-2	2,276	5.7	104,341	124.1	132,030	128,507	117,868
Kyowa Hakko Kogyo, Japan	128,627	10	2,341	5.5	45,796	281.1	117,294	111,768	118,536
FMC, USA	120,958	13	2,904	4.2	65,567	184.5	107,432	96,125	93,385
Mitsui Petrochemical Industries, Japan	119,167	-7	2,254	5.3	63,978	186.3	127,528	142,688	151,773
Lubrizol, USA	115,708	9	1,071	10.8	44,950	257.4	106,582	110,465	98,679
Eastman Chemical, USA	107,561	-4	2,766	3.9	141,897	75.9	112,070	104,341	101,120
Chiron, USA	107,030	19	292	36.6	13,001	823.2	90,190	92,056	51,527
Shin-Etsu Chemical, Japan	104,112	2	3,265	3.2	53,873	193.3	101,989	121,321	137,949
Altana Industrie, Germany	101,251	7	1,279	7.9	33,784	299.9	94,500		
Colgate-Palmolive, USA	100,927	7	6,383	1.5	330,091	30.6	94,744	90,106	81,025
Ono Pharmaceutical, Japan	96,982	24	755	12.8	25,007	387.8	78,512	81,584	64,475
Hafslund Nycomed, Norway	94,911	9	951	10	103,863	91.4	87,265	75,236	66,468
Ares-Serono, Switzerland	93,084	4	439	21.2	27,754	335.3	89,394	75,297	85,481
Union Carbide, USA	92,747	6	3,792	2.4	130,104	71.3	87,586	89,527	99,832
BOC, UK	91,500	4	3,544	2.6	235,300	38.9	88,000	85,300	81,200
Shiseido, Japan	91,182	2	3,371	2.7	33,961	268.4	89,289	89,289	81,796
WR Grace, USA	85,276	-2	3,289	2.6	155,803	54.7	86,950	96,998	98,869
Dainippon Pharmaceutical, Japan	84,300	12	886	9.5	12,194	691.3	75,527	9,328	84,738
Green Cross, Japan	84,153	3	711	11.8	18,906	445.1	81,547	81,653	71,456
Norsk Hydro, Norway	71,666	16	8,128	0.9	295,336	24.3	61,677	72,279	72,279
4 Diversified Industrials	2,677,806	-2		5		12	2,721,036	2,562,080	2,498,705
Philips, The Netherlands	1,547,332	4	25,900	6	565,332	273.7	1,484,898	1,364,914	1,470,588
Minnesota Mining & Manufacturing, USA	568,723	-16	8,669	6.6	574,520	99	678,861	683,403	648,589
Degussa, Germany	194,851	6	6,237	3.1	125,154	155.7	183,151	211,062	216,902
BTR, UK	114,000	0	9,779	1.2	863,000	13.2	114,000	101,000	93,000
Hasbro, USA	95,360	9	1,840	5.2	42,278	225.6	87,212	80,874	70,626
Johnson Controls, USA	88,239	10	5,365	1.6	84,116	104.9	79,866	61,187	
Preussag, Germany	69,300	-17	11,858	0.6	160,718	43.1	83,250	79,850	
5 Electricity	2,369,903	6		16		-3	2,237,725	1,914,708	1,991,778
Asea Brown Boveri, Switzerland	1,692,000	12	21,738	7.8	656,316	257.8	1,515,622	1,482,707	1,536,777
GEC Alsthom, The Netherlands	290,000	2	7,244	4	194,322	149.2	283,000	272,000	257,000
RWE, Germany	247,502	-17	28,613	0.9	523,681	47.3	297,452		
Veba, Germany	140,401	-1	29,845	0.5	492,754	28.5	141,751	180,001	198,001
6 Electronic and electrical equipment	34,530,701	2		8		2	33,736,450	34,132,397	34,325,454
Siemens, Germany	3,273,332	-3	38,949	8.2	1,100,841	297.4	3,378,633	3,484,134	3,773,287
Hitachi, Japan	3,068,821	1	47,404	6.5	693,873	442.3	3,023,589	3,129,451	3,243,929
Matsushita Electric Industrial, Japan	2,360,623	-1	43,383	5.4	728,971	323.8	2,383,639	2,508,957	2,610,447
International Business Machines, USA	2,181,501	0	46,335	4.7	1,411,825	154.5	2,178,281	2,853,922	3,273,863
Toshiba, Japan	1,886,764	-3	29,815	6.3	760,322	248.2	1,944,609	1,946,576	1,985,794
NEC, Japan	1,680,949	2	23,533	7.1	607,375	273.5	1,633,806	1,717,214	1,888,194
Sony, Japan	1,493,348	4	24,869	6	549,318	271.9	1,435,358	1,449,551	1,502,257
Ericsson Telefon, Sweden	1,488,849	13	9,600	15.3	324,103	452.6	1,302,991	1,061,675	716,951
Motorola, USA	1,415,045	18	17,414	8.1	289,836	488.2	1,197,880	979,647	841,169
Mitsubishi Electric, Japan	1,034,429	-1	20,299	5.1	445,405	232.2	1,046,361	1,052,481	1,052,093
Robert Bosch, Germany	1,014,760	2	15,515	6.5	95,850	1058.7	996,793	1,035,910	964,809
General Electric, USA	856,661	10	45,109	1.9	6,520,674	12.8	757,439	835,372	871,441
Canon, Japan	782,083	3	13,524	5.8	297,003	263.3	757,232	650,571	627,656
Intel, USA	715,573	15	7,420	9.6	115,934	617.2	624,758	502,327	398,072
Sharp, Japan	714,760	3	10,102	7.1	179,322	398.6	691,157	653,128	631,346
Digital Equipment, USA	669,882	-20	8,898	7.5	81,004	826.9	838,172	985,520	1,129,652
Texas Instruments, USA	597,062	35	8,455	7.1	107,561	555.1	443,771	380,007	302,718
Xerox, USA	576,452	1	11,488	5	741,891	77.7	569,729	593,842	573,231
Sanyo Electric, Japan	553,576	2	10,877	5.1	298,433	185.5	545,216	534,638	531,167
Thomson, France	493,230	-4	8,801	5	570	86509.6	514,698	549,204	570,672
General Electric, UK	412,000	1	5,843	7.1	332,000	124.1	406,000	398,000	417,000
Apple Computer, USA	395,465	9	7,124	5.6	68,272	579.2	363,456	428,030	367,823
Nokia, Finland	375,441	31	5,460	6.9	243,866	154	287,329	218,352	165,099
Matsushita Electric Works, Japan	307,605	5	6,999	4.4	168,026	183.1	292,574	292,944	297,084
Groupe Schneider, France	289,748	0	7,370	3.9	244,485	118.5	289,748	289,748	269,992
Advanced Micro Devices, USA	256,057	42	1,565	16.4	12,082	2119.2	180,332	169,265	146,760
Unisys, USA	236,248	-24	3,994	5.9	207,587	113.8	311,346	331,830	345,152
OKI Electric Industry, Japan	230,117	11	4,102	5.6	56,551	238.3	207,058	232,436	272,782
Compagnie des Machines Bull, France	230,018	-31	3,939	5.8	97,780	235.2	335,519	346,844	378,384
Victor Company of Japan, Japan	226,495	2	4,789	4.7	27,423	825.9	222,649	232,340	255,973
AMP, USA	226,072	32	3,365	6.7	150,307	150.4	170,681	186,172	175,190
Fuji Photo Film, Japan	210,167	-56	2,922	7.2	67,310	312.2	479,236	468,470	425,855
Tandem Computers, USA	208,165	20	1,471	14.1	8,438	2466.9	173,429	223,108	203,218
Honeywell, USA	205,461	-5	3,901	5.3	129,653	158.5	217,312	207,339	193,675
SAP, Germany	197,191	19	1,213	16.3	62,484	315.6	166,321	120,468	105,841
Fuji Electric, Japan	194,126	-1	5,344	3.6	112,554	172.5	195,706	207,844	204,804
Pioneer Electronic, Japan	188,509	1	3,184	5.9	55,272	337.4	185,503	179,621	165,753
National Semiconductor, USA	182,339	10	1,532	11.9	11,529	1581.6	166,044	130,297	123,727
Compaq Computer, USA	173,901	19	9,503	1.8	63,764	272.7	145,582	108,849	111,382
Silicon Graphics, USA	159,524	40	1,435	11.1	11,714	1361.8	114,142	94,119	65,731
TDK, Japan	158,304	-3	3,028	5.2	67,753	233.6	163,231	172,772	164,274
Ascom, Switzerland	157,178	-6	1,654	9.5	35,417	443.8	167,758	189,861	159,026
Olivetti, Italy	152,536	-13	3,656	4.2	204,252	74.7	174,622	186,472	187,227
Seagate Technology, USA	141,713	28	2,924	4.8	21,232	667.4	110,722	99,191	85,615
Electrolux, Sweden	132,272	7	10,496	1.3	344,278	38.4	123,913	105,031	98,546
DSC Communications, USA	122,214	26	915	13.3	11,979	1020.2	96,996	67,090	43,980
Murata Manufacturing, Japan	120,528	0	1,979	6.1	29,503	408.5	120,641	119,335	113,222
Whirlpool, USA	115,934	18	5,257	2.2	155,223	74.7	97,900	92,442	83,764
Casio Computer, Japan	111,012	-3	2,510	4.4	49,246	225.4	114,459	106,454	107,384
Storage Technology, USA	109,372	4	1,046	10.5	33,977	321.9	105,169	95,321	78,526
Quantum, USA	109,031	88	2,169	5	14,823	735.5	57,852	40,569	38,185
Framatome, France	108,141	-10	2,628	4.1	87,000	124.3	119,050	98,909	91,797
Cisco Systems, USA	106,156	86	1,274	8.3	0		57,164	28,503	17,225
Kyocera, Japan	105,723	-2	3,115	3.4	71,491	147.9	107,528	134,171	163,187
Alps Electric, Japan	100,247	13	2,497	4	66,586	150.6	88,396	87,097	78,938
Bay Networks, USA	89,453	24	864	10.3	3,864	2314.8	72,098	56,083	34,780
Electrabel, Belgium	87,543	0	4,630	1.9	719,534	12.2	87,543	65,657	6
Analog Devices, USA	86,477	26	606	14.3	2,705	3198	68,832	60,612	56,789
Harris, USA	86,242	5	2,218	3.9	73,157	117.9	82,249	77,676	78,842
Western Digital, USA	84,238	16	1,372	6.1	2,595	3245.4	72,869	65,434	57,687
Conner Peripherals, USA	84,227	-5	1,523	5.5			88,528	60,982	
3Com, USA	82,041	67	834	9.8	4,421	1855.5	49,250	41,444	31,057
Teradyne, USA	79,535	75	767	10.4	1,958	4062.1	45,370	40,162	39,947
Cray Research, USA	79,199	-13	435	18.2	5,760	1374.8	90,578	93,842	102,795
Raychem, USA	76,492	-13	986	7.8	22,146	345.4	87,983	83,061	88,761
Lexmark International, USA	74,777	15	1,389	5.4	22,697	330.8	65,052	71,943	87,401
General Instrument, USA	71,790	51	1,311	5.5	34,905	206.1	47,485	37,452	36,712
7 Engineering	15,585,543	2		8		3	15,343,623	16,106,534	15,782,128
Fujitsu, Japan	2,022,441	-2	20,343	9.9	459,685	440	2,060,005	2,415,752	2,446,941
Hewlett-Packard, USA	1,482,674	14	20,300	7.3	363,261	408.2	1,305,551	1,134,226	1,043,411
Boeing, USA	816,050	-26	12,569	6.5	318,175	256.5	1,097,513	1,089,818	1,188,973
Mitsubishi Heavy Industries, Japan	733,180	0	17,789	4.1	410,513	178.6	730,551	769,077	806,703
United Technologies, USA	629,911	-14	13,652	4.6	344,583	182.8	732,319	785,134	734,252
Eastman Kodak, USA	602,215	9	9,646	6.2	402,550	149.6	553,265	637,848	1,022,156
Aerospatiale, France	511,800	-9	6,305	8	250,369	204.4	562,243	683,805	322,542
Rockwell International, USA	418,006	9	8,360	5	260,852	160.2	383,421	378,268	321,203
Mannesmann, Germany	397,803	-6	14,442	2.8	214,040	185.9	422,554	397,803	442,354
Ricoh, Japan	343,521	1	6,368	5.4	107,322	320.1	340,792	345,001	364,482
SNECMA, France	312,798	-20	2,482	12.6	53,498	584.7	390,633	460,699	381,545
Caterpillar, USA	241,530	21	10,351	2.3	288,548	83.7	200,309	205,461	199,665
Sumitomo Electric Industries, Japan	236,192	-3	6,993	3.4	140,840	167.7	242,892	240,832	156,931
Emerson Electric, USA	228,133	19	6,448	3.5	327,901	69.6	192,064	175,447	157,871
Celsius Industries, Sweden	227,515	18	1,465	15.5	20,020	1136.4	192,825	204,876	81,443
Kubota, Japan	226,545	-1	6,331	3.6	188,873	120	229,549	227,944	214,557
Komatsu, Japan	226,445	33	5,738	3.9	201,970	112.6	170,889	201,913	236,548
Applied Materials, USA	212,338	74	1,971	10.8	13,783	1540.5	121,812	90,275	70,391
Deere, USA	210,872	19	5,887	3.7	378,333	55.7	177,573	173,773	185,732
Rolls-Royce, UK	206,000	-6	3,597	5.7	118,000	174.6	218,000	253,000	229,000
Raytheon, USA	203,259	17	7,546	2.7	244,180	83.2	173,852	179,987	186,699
McDonnell Douglas, USA	200,309	5	9,230	2.2	132,880	151	191,282	219,631	327,837
Omron, Japan	194,957	9	3,059	6.4	74,207	262.4	179,191	189,589	209,718
NKK, Japan	189,744	-24	11,251	1.7	462,282	40.8	248,830	220,195	207,068
Sumitomo Metal Industries, Japan	187,320	-11	8,298	2.3	358,078	52.3	209,799	234,775	244,141
Kawasaki Steel, Japan	175,457	-22	7,174	2.4	279,296	62.8	225,409	148,185	274,112
Olympus Optical, Japan	173,790	0	1,573	11	69,132	251.3	174,158	163,843	159,984
Loral, USA	146,850	32	3,532	4.2	100,170	146.6	111,170	80,328	79,159
Pohang Iron & Steel, South Korea	144,929	78	7,176	2	492,988	29.4	81,320	77,210	100,485
Kawasaki Heavy Industries, Japan	143,582	5	6,681	2.1	149,051	96.3	136,232	144,405	135,892
Usinor Sacilor, France	138,815	-4	10,464	1.3	233,774	59.4	144,874	171,214	149,747
Konica, Japan	136,044	-1	3,234	4.2	94,853	143.4	137,431	148,809	145,635
Medtronic, USA	123,245	22	1,121	11	36,218	340.3	100,678	85,533	70,321
Ingersoll-Rand, USA	122,633	23	3,690	3.3	106,337	115.3	99,574	95,678	89,140
Thyssen, Germany	122,401	20	17,605	0.7	338,558	36.4	101,701	134,107	135,451
Furukawa Electric, Japan	121,589	-4	4,189	2.9	127,003	95.7	126,705	128,751	124,818
Kobe Steel, Japan	119,935	-1	8,342	1.4	404,176	29.7	121,606	128,595	114,109
British Aerospace, UK	119,000	20	5,741	2.1	127,000	93.7	99,000	168,000	151,000
Sulzer Gebrueder, Switzerland	116,428	-8	3,212	3.6	65,773	177	126,504	132,861	128,862
Siebe, UK	112,600	11	2,146	5.2	109,300	103.4	101,500	78,000	84,900
Pechiney, France	111,289	-3	9,316	1.2	386,945	28.8	114,977	121,095	131,572
Polaroid, USA	106,724	3	1,489	7.2	47,964	222.4	103,568	99,639	99,059
Tektronix, USA	105,826	7	946	11.2	18,367	576.2	98,639	101,184	109,987
Landis & Gyr, Switzerland	103,610	-4	1,617	6.4	31,346	330.5	107,864	111,850	115,309
Linde, Germany	103,459	1	3,727	2.8	95,085	108.8	102,061	99,000	90,000
Minolta, Japan	102,698	5	2,065	4.9	58,331	175.9	97,950	112,398	114,890
Case, USA	100,476	23	3,179	3.2	125,595	80	81,798	61,187	58,679
Oerlikon-Buhrle, Switzerland	97,956	3	2,134	4.6	52,618	186.2	95,158	67,842	58,423
Mitsubishi Materials, Japan	95,533	3	7,186	1.3	218,936	44	92,573	90,226	99,904
Daikin Industries, Japan	93,518	-6	2,397	3.9	61,747	151.5	99,848	101,933	105,973
Becton Dickinson, USA	92,877	0	1,747	5.3	64,571	143.8	92,893	89,818	80,643
Aluminum Company of America, USA	91,008	12	8,051	1.1	183,047	49.7	81,025	83,998	136,673
Intergraph, USA	89,398	-14	679	13.2			103,242	96,710	88,522
Gillette, USA	88,174	3	3,909	2.3	184,815	47.7	85,727	79,737	70,140
Guidant, USA	86,757	3	598	14.5	23,637	367	84,310	83,150	75,937
Dresser Industries, USA	84,761	28	3,615	2.3	110,588	76.6	66,018	98,479	73,618
Alusuisse-Lonza, Switzerland	82,843	-5	4,192	2	155,051	53.4	86,761	83,983	108,592
Lam Research, USA	82,330	67	513	16	4,335	1899	49,161	28,287	21,883
Hitachi Cable, Japan	81,977	4	2,204	3.7	29,446	278.4	79,118	74,460	69,827
Deutsche Babcock, Germany	76,850	1	3,743	2.1	22,034	349.2	76,050	90,450	79,200
EMC, USA	75,951	100	886	8.6	9,861	770.2	37,985	21,635	
Nikon, Japan	75,240	17	1,799	4.2	63,301	118.9	64,101	73,442	78,312
Sandvik, Sweden	74,737	12	2,896	2.6	185,198	40.4	66,476	64,048	63,074
Atlas Copco, Sweden	69,780	16	2,376	2.9	85,092	82	60,256	56,963	46,552
Oce-van der Grinten, The Netherlands	67,651	2	1,178	5.7	48,975	138.1	66,201	63,846	66,071
SMH, Switzerland	67,170	94	1,490	4.5	46,076	145.8	34,704	78,385	
8 Engineering, vehicles	21,694,840	12		3		-2	19,335,195	18,303,531	17,442,721
General Motors, USA	5,402,488	19	109,739	5	4,302,267	125.6	4,531,624	3,883,743	3,810,950
Ford Motor, USA	4,192,322	25	71,168	5.9	1,404,740	298.4	3,358,237	3,233,930	2,790,158
Daimler-Benz, Germany	2,385,023	2	46,597	5.1	543,605	438.7	2,340,023	2,205,022	2,150,021
Volkswagen, Germany	1,530,015	21	39,653	3.9	1,147,961	133.3	1,260,012	1,305,013	1,350,013
Honda Motor, Japan	1,267,562	8	24,763	5.1	299,819	422.8	1,178,988	1,244,016	1,201,819
Renault, France	1,040,986	3	24,242	4.3	531,292	195.9	1,015,040	909,019	815,248
Chrysler, USA	914,594	9	31,947	2.9	1,154,837	79.2	839,237	792,219	678,284
Fiat, Italy	782,772	-14	26,497	3	885,775	88.4	911,861	1,055,805	1,015,005
Peugeot, France	773,891	-14	21,989	3.5	399,093	193.9	902,980	874,544	891,576
Nippondenso, Japan	743,039	7	8,816	8.4	104,824	708.8	696,833	691,214	669,735
Volvo, Sweden	708,388	58	16,668	4.3	545,316	129.9	447,450	426,263	600,423
TRW, USA	271,802	2	6,551	4.1	150,070	181.1	265,381	243,482	253,123
MAN, Germany	241,552	-4	8,370	2.9	138,722	174.2	252,002	235,352	240,752
AlliedSignal, USA	227,360	11	9,239	2.5	261,496	86.9	204,817	201,587	206,105
Valeo, France	198,214	14	3,322	6	45,707	433.7	174,244	139,737	127,357
Cummins Engine, USA	148,138	-3	3,378	4.4	34,136	434	153,098	101,764	83,086
Eaton, USA	146,206	7	4,383	3.3	130,104	112.4	137,189	99,188	90,815
Textron, USA	118,576	-3	4,165	2.8	609,300	19.1	120,443	125,595	110,781
Pirelli, Italy	116,522	7	3,974	2.9	187,118	62.3	108,808	103,124	121,800
Fuji Heavy Industries, Japan	116,170	-6	6,887	1.7	103,557	112.2	123,882	161,274	153,200
Lucas Industries, UK	105,700	9	2,796	3.8	116,311	90.9	96,700	90,800	98,300
Northrop Grumman, USA	105,629	36	4,391	2.4	139,121	75.9	77,933	62,475	59,899
GKN, UK	87,000	14	2,894	3	106,500	81.7	76,000	66,000	58,000
Navistar International, USA	72,787	16	4,064	1.8	70,204	103.7	62,475	62,475	59,255
9 Extractive industries	71,550	-3		9		37	73,800	87,300	90,000
Ruhrkohle, Germany	71,550	-3	11,475	0.6	118,628	60.3	73,800	87,300	90,000
10 Food manufacturers	1,576,098	5		2		6	1,495,726	1,431,168	1,226,423
Unilever, UK	585,000	8	31,516	1.9	1,012,000	57.8	543,000	518,000	461,000
Nestle, Switzerland	367,758	-5	31,617	1.2	1,292,303	28.5	386,789	376,154	374,475
Philip Morris Companies, USA	308,802	11	34,225	0.9	2,785,006	11.1	280,175	271,158	264,073
RJR Nabisco, USA	147,494	9	10,310	1.4	945,510	15.6	135,801	128,172	
Pioneer Hi-Bred International, USA	83,730	14	896	8.5	47,017	178.1	73,210	67,750	59,365
Danone, France	82,314	7	10,463	0.8	312,001	26.4	76,651	69,934	68,519
11 Gas distribution	114,890	-23		1		4	148,607	116,136	125,723
Osaka Gas, Japan	114,890	-23	4,445	2.6	205,072	56	148,607	116,136	125,723
12 Health care	3,706,546	20		15		8	3,060,861	2,760,476	2,485,799
Johnson & Johnson, USA	1,052,428	28	12,135	8.7	669,844	157.1	823,135	761,303	725,679
Pfizer, USA	929,022	27	6,454	14.4	546,112	169.5	733,865	627,592	555,970
Abbott Laboratories, USA	690,934	11	6,448	10.7	474,003	145.8	620,582	567,418	497,482
Amgen, USA	280,931	40	1,249	23.3	9,654	2952.3	206,443	164,447	117,414
Novo Nordisk, Denmark	226,633	3	1,584	14.2	35,331	641.4	220,357	202,807	176,890
Baxter International, USA	222,237	14	3,251	6.8	338,142	65.7	195,156	180,342	165,528
Eisai, Japan	219,227	6	1,610	13.6	39,274	558.2	207,308	190,549	188,981
Allergan, USA	75,164	5	687	10.9	28,403	264.6	71,815	66,018	57,645
13 Household goods	1,105,057	19		10		8	929,881	853,488	752,445
Procter & Gamble, USA	809,609	19	21,534	3.8	998,325	81.1	682,081	615,741	554,553
Sankyo, Japan	295,448	19	3,452	8.6	47,298	624.6	247,800	237,747	197,892
14 Investment trusts	187,960	-24				-42	248,022	210,021	226,155
Investor, Sweden	187,960	-24	0		163,080	115.3	248,022	210,021	226,155
15 Media	285,222	10		7		18	258,386	205,908	136,388
Reuters, UK	191,000	20	2,703	7.1	163,000	117.2	159,000	110,000	78,500
Toppan Printing, Japan	94,222	-5	7,061	1.3	83,901	112.3	99,386	95,908	57,888
16 Oil, integrated	2,642,609	-1		7		-11	2,657,358	2,883,329	2,921,809
Societe Nationale Elf Aquitaine, France	736,862	8	27,432	2.7	1,048,098	70.3	679,459	632,572	808,207
Shell Transport & Trading, UK	483,000	11	69,595	0.7	3,851,000	12.5	437,000	529,000	499,000
Exxon, USA	338,142	-6	79,814	0.4	371,937	90.9	358,397	361,939	401,906
Schlumberger, USA	269,786	-7	4,312	6.3	228,927	117.8	289,956	271,310	262,292
Mobil, USA	162,308	-8	47,238	0.3	1,260,468	12.9	177,122	193,868	209,970
Total, France	138,684	-5	18,009	0.8	468,601	29.6	145,927	128,806	127,489
British Petroleum, UK	123,000	0	36,106	0.3	1,380,000	8.9	123,000	237,000	315,000
Chevron, USA	119,154	3	23,388	0.5	1,158,057	10.3	115,290	148,782	147,494
Amoco, USA	112,774	-31	17,432	0.6	986,731	11.4	164,240	189,071	193,224
Nippon Oil, Japan	91,955	-4	16,571	0.6	301,599	30.5	95,764	101,777	99,904
Atlantic Richfield, USA	66,984	-5	10,158	0.7	1,064,021	6.3	70,204	70,204	57,323
17 Other financial	255,056	-14		4		109	296,277	328,481	346,515
ITT, USA	255,056	-14	15,213	1.7	787,086	32.4	296,277	328,481	346,515
18 Other services and businesses	83,045	-5		-5		-11	87,416	94,734	99,904
Yokohama Rubber, Japan	83,045	-5	2,366	3.5	62,384	133.1	87,416	94,734	99,904
19 Paper, packaging and printing	133,453	24		87		44	107,625	102,086	100,541
Kimberly-Clark, USA	133,453	24	8,881	1.5	383,421	34.8	107,625	102,086	100,541
20 Pharmaceuticals	8,681,837	4		5		12	8,355,671	7,869,573	7,059,771
Roche, Switzerland	1,281,835	-2	8,240	15.6	742,255	172.7	1,305,345	1,210,747	1,118,387
Glaxo Wellcome, UK	1,200,000	0	7,973	15.1	1,446,000	83	1,204,300	1,064,500	849,600
Merck, USA	857,529	8	10,743	8	1,079,930	79.4	792,605	755,378	715,960
SmithKline Beecham, UK	653,000	2	7,011	9.3	608,000	107.4	638,000	575,000	478,000
Astra, Sweden	562,131	47	3,479	16.2	197,193	285.1	381,946	273,096	201,080
Zeneca, UK	549,000	6	4,896	11.2	355,000	154.6	518,000	490,000	458,000
Eli Lilly, USA	540,190	-12	3,678	14.7	536,132	100.8	614,839	595,710	493,945
Takeda Chemical Industries, Japan	418,342	7	4,820	8.7	103,594	404.8	392,961	388,859	373,030
Schering, Germany	380,253	1	2,091	18.2	70,903	536.3	376,961	437,067	445,035
CORANGE, Bermuda	295,026	0	2,229	13.3	61,187	483.5	295,781	295,433	258,920
Roussel UCLAF, France	262,011	9	2,142	12.2	115,128	227.6	241,412	215,177	205,194
Yamanouchi Pharmaceutical, Japan	239,878	9	2,397	10	85,168	280.2	219,396	209,424	198,934
Fujisawa Pharmaceutical, Japan	227,819	-1	1,773	12.8	59,588	382.3	229,274	248,543	233,745
Genentech, USA	222,803	13	551	40.4	5,114	4356.7	197,564	190,107	173,896
Daiichi Pharmaceutical, Japan	198,853	3	1,592	12.5	39,093	508.7	193,614	183,299	169,900
Shionogi, Japan	169,519	1	1,486	11.4	14,205	1193.4	167,627	181,470	177,817
Chugai Pharmaceutical, Japan	158,061	6	1,067	14.8	27,067	583.9	149,026	139,254	136,750
Synthelabo, France	157,912	8	1,069	14.8	25,086	629.2	146,309	129,991	92,034
Tanabe Seiyaku, Japan	123,069	-2	1,317	9.3	20,149	610.8	125,892	141,739	140,428
Taisho Pharmaceutical, Japan	117,387	1	1,317	8.9	2,066	5679.8	116,026	110,519	105,524
Alza, USA	66,609	36	210	31.6	15,418	432	49,013	34,234	33,492
21 Retailers, food	102,048	4		4		31	97,766	77,173	
Drida, Norway	102,048	4	2,194	4.7	119,175	85.6	97,766	77,173	
22 Retailers, general	67,400	0		3		6	67,600	66,800	56,900
Boots, UK	67,400	0	4,308	1.6	211,700	31.8	67,600	66,800	56,900
23 Support services	1,865,525	18		21		17	1,576,525	1,462,271	1,258,543
Microsoft, USA	553,909	41	3,823	14.5	0		392,889	302,718	226,815
Sun Microsystems, USA	334,847	14	3,801	8.8	11,487	2914.8	292,841	286,845	245,805
Novell, USA	236,739	6	1,314	18	0		223,306	186,937	146,083
Oracle, USA	167,845	11	1,910	8.8	4,489	3738.8	151,457	109,147	80,829
Computer Associates International, USA	149,932	10	1,689	8.9	35,936	417.2	136,076	143,845	130,303
Automatic Data Processing, USA	124,419	20	1,863	6.7	73,144	170.1	103,570	85,297	71,804
Lotus Development, USA	102,195	25	625	16.3	3,410	2996.6	81,723	76,199	75,090
Amdahl, USA	96,360	-26	978	9.9	6,750	1427.4	130,903	215,454	239,833
Adobe Systems, USA	89,279	40	490	18.2	8,497	1062	63,760	55,859	41,981
24 Telecommunications	8,573,386	14		6		-10	7,548,557	7,661,464	6,988,843
American Telephone & Telegraph, USA	2,304,692	20	51,274	4.7	1,486,538	161.1	2,003,091	1,976,684	1,874,919
Nippon Telegraph & Telephone, Japan	1,960,113	1	43,982	4.5	2,220,027	88.3	1,939,220	1,844,804	1,791,330
Alcatel Alsthom, France	1,435,307	3	22,079	6.5	294,621	487.2	1,387,235	1,391,359	1,339,558
Northern Telecom, Canada	1,017,003	37	6,873	14.8	174,545	582.7	744,557	594,486	782,005
Bell Canada Enterprises, Canada	1,007,792	33	11,828	8.7	1,055,952	95.4	758,441	587,485	593,624
STET, Italy	296,381	7	13,703	2.2	1,205,774	24.6	276,081	261,671	215,181
British Telecommunications, UK	271,000	2	13,893	2	1,522,000	17.8	265,000	233,000	240,000
Nynex, USA	102,859	20	8,570	1.2	1,073,554	9.6	85,405	84,625	69,818
GTE, USA	88,239	-1	12,853	0.7	1,916,140	4.6	89,527	86,950	102,408
25 Textiles and apparel	78,356	-5		0		-15	82,421	92,842	80,729
Kuraray, Japan	78,356	-5	2,041	3.8	50,551	155	82,421	92,842	80,729
26 Tobacco	195,438	-1		3		0	197,935	144,237	123,631
Japan Tobacco, Japan	195,438	-1	22,284	0.9	62,440	313	197,935	144,237	123,631

■ **Europe:** by Clive Cookson

Focus on competitiveness

Debate is already under way about the direction of the Fifth Framework Programme

The European Union's Fourth Framework Programme for Research and Development, which will distribute Ecu13.1bn (£10.9bn) in R&D grants over the period 1994-98, is in full swing. But planning is already under way for the follow-up Fifth Framework Programme.

Several national governments put forward their preliminary views to the Europe Commission in Brussels this month. And it is clear that France, Germany and the UK have several ideas in common.

The three countries believe that, compared with the fourth programme, Framework Five should:

● focus more on industrial competitiveness;
● involve users more closely;
● have a more streamlined management structure; and
● contain fewer specific programmes than the current 17.

They will also resist any attempt to increasing EU spending on R&D.

However, as Ian Taylor, the UK science and technology minister, says, everyone accepts that there is a "clear need for a further programme of research and technological development at European level to address questions of industrial competitiveness and to provide support for European policy making".

The essential requirement for applying for a Framework grant is that the proposal must involve at least two participants from different EU countries. They may be companies, universities or other research institutions in the private or public sector. European subsidiaries of companies based in the US, Japan or other non-EU countries are eligible. The EU normally contributes up to half of the project's cost.

Framework is intended to fund pre-competitive research, in contrast to Eureka, the other big European research scheme. Eureka, an inter-governmental initiative outside the EU, supports projects that are closer to commercial application.

The UK suggests that Framework Five should be "organised primarily around objective-driven themes which seek to address the medium-term technological needs of European industry, to contribute to improvements in quality of life, and to support European policies more broadly". The fourth programme, in contrast, is based on 17 subject areas, ranging from information technology (the Esprit programme) through environment and climate to nuclear safety.

Illustrative examples of possible themes are given in the UK submission – many of them suggested in Britain's Technology Foresight exercise, involving thousands of people from the country's business and academic sectors over the past two years. They include:

● Intelligent business and administration: innovative use of information systems in business and public services;
● Agile enterprise: developing a responsive, adaptable business;
● Energy for tomorrow's Europe;
● Towards tomorrow's car: technologies for the environmentally friendly, more efficient vehicle;
● The informed citizen: empowering the individual through easier access to information for culture, leisure and self-development;
● Better building and construction;
● European aeronautics for world markets;
● Molecular and bio-technologies for competitiveness and quality of life;
● Sustainable farming and fishing.

> Europe's universities are urging the EC not to abandon its support for basic research

Some of these themes should strike a sympathetic chord in Brussels, where eight EC task forces have recommended areas of R&D likely to be crucial for industrial competitiveness, employment and quality of life. Several UK themes and EC areas are similar.

The German government has also suggested a set of themes – ageing, robotics, vaccines and viral diseases, clean power generation, tele-medicine and the car of the future.

A hazy outline of Framework Five is thus beginning to appear. It would have a set of perhaps a dozen themes, cutting across a smaller number of discipline-related programmes. These technologies might include: information and communications; life sciences and medicine; energy; environment and the sea; engineering and materials; social and economic sciences.

Despite the likely industrial orientation of Framework Five, Europe's universities are urging the EC not to abandon its support for basic research. The European Science and Technology Assembly, an independent group of scientists, wants 10 per cent of Framework funds to be devoted to basic science. And the UK Committee of Vice-Chancellors and Principals suggests that EC funding of basic research should rise from half to three-quarters.

EC officials expect to complete a preliminary outline of their ideas for Framework Five this summer. It will be worked up into a full proposal for submission to the council of ministers early next year. But experience with previous Framework programmes suggests that negotiations between the EC and member states over funding and content will continue well into 1998.

Long-term research: a second world war stock of 8,000 human brains – the Corsellis Collection – has been opened up to scientists Kevin Lamarque/Reuter

The tables and how to read them

The R&D Scoreboard is prepared for the Department of Trade and Industry by Company Reporting, an Edinburgh consultancy. It is based on figures published in annual reports and accounts up to May 31, 1996.

The UK table (on page 4) shows the top 300 R&D spenders extracted from the list of 446 companies in the full scoreboard. Those in italics are unlisted companies or the UK subsidiaries of foreign-owned companies. The remainder are companies based in Britain and listed on the London Stock Exchange.

The main international table (on page 1) shows the world's top 300 R&D spenders, whether or not they are listed companies, broken down according to their industrial sector.

Company Reporting's non-UK data are supplemented by Standard and Poor's Compustat Global Vantage database. All currencies are converted to sterling at the exchange rates on December 31, 1995.

The R&D spend shows the amount of R&D that is funded by the company anywhere in the world. R&D paid for by governments and other external sources is excluded.

The figures are subject to uncertainties of definition. The UK definition is contained in Statement of Standard Accounting Practice (SSAP) 13. For international companies, the definition is governed by International Accounting Standard (IAS) 9. Both these definitions are based on the OECD "Frascati" manual.

Cost of funds is the sum of equity and preference dividends, interest payable and other financing costs (such as the finance element of lease payments).

The printed version of the scoreboard is available free from the DTI Innovation Unit by calling +44 (0) 171 215 1217.

A floppy disk is available for £75 from Company Reporting on +44 (0) 131 558 1400.

■ **External resources:** by Michael Kenward

Good news for contractors

Independent groups are benefitting from foreign enthusiasm for research

While British companies continue to compare badly with their competitors when it comes to investment in R&D, independent research and technology organisations (RTOs) are benefiting from the greater enthusiasm for research among foreign companies.

The latest figures available from the Association of Independent Research & Technology Organisations (Airto) show that between 1992 and 1994, the organisation's 38 members saw overseas sales rising from 20 to 27 per cent of turnover.

The contract research sector as a whole has fared no better than the rest of British industry. But the flat level of income is due mostly to declines of 30 per cent in the income of WRc, the Water Research Centre, down to £21m last year, and around 20 per cent for Pera Group, down to £25m.

Brian Blunden, chairman of Airto and managing director of Pira International, highlights two reasons for the growing importance of exports to Britain's RTOs. As well as the greater enthusiasm for R&D in foreign companies, there is generally more interest in outsourcing R&D. "The world market for outsourcing R&D is growing significantly," says Mr Blunden. The recent CBI/NatWest Innovation trends survey revealed a continuing rise in R&D collaboration.

The survey found that in the UK about 70 per cent of companies collaborate with government and commercial research organisations. The survey also found that 82 per cent of companies collaborate with universities and 80 per cent with other companies. According to the survey, academic-industry links have become more international in nature.

Airto says that its members have annual sales of about £350m, £300m of it directly from industry. As Mr Blunden points out, members' sales are two and a half as much as universities manage to extract from industry. By contrast, universities have a total research budget of about £2.5bn.

One sign of the relatively healthy state of the RTO sector as a whole is the increased membership of Airto, up from 34 members last year to 42 now. The organisation's members carry out work for 19 of the top 20 companies in the UK R&D Scoreboard, and all of the top 20 companies in the international league table.

One new member of Airto this year is CRL, a subsidiary of Thorn EMI and formerly the electronics company's R&D wing. Now earning about 95 per cent of its income from outside the parent company, CRL concentrates on developing and exploiting patents and other intellectual property rights rather than on straight contract research.

Much of CRL's recent growth, running at between 15 and 20 per cent a year, has come from the Far East and North America. Dr John White, managing director of CRL, ascribes the growing importance of these markets to the economic recession in Europe, which has hit R&D budgets. Dr White expects to see growth in Europe's contract R&D spending even if the economy stays flat.

He believes that companies realise that they cannot hold down R&D spending for more than a few years if they do not want to cause permanent harm to their technical competitiveness.

Contract research organisations can thrive even when their industry is in recession. For example, the travails of the motor manufacturing sector have done little to harm MIRA, the Motor Industry Research Association. MIRA, celebrating its 50th anniversary, increased turnover by about 25 per cent last year.

John Wood, MIRA's managing director, believes that the growth "reflects changes in our industry." Leading car manufacturers are reducing their supplier base and buying from a smaller number of suppliers, a strategy that applies to service providers as much as to makers of components.

Customers now give MIRA greater responsibility for complete projects, including vehicle development programmes, as well as work to develop components. Contract research also has a value in trouble shooting. "Companies don't like keeping a large number of engineers on the shelf waiting for a problem to occur," says Mr White. If a prototype vehicle turns out to be noisy, for example, MIRA has expertise that can come into play.

By sustaining its own research programme, MIRA has been able to enhance its appeal to customers who want to participate in pre-competitive research. One such programme involves working on fuel cells as possible power supplies to replace the internal combustion engine.

Pre-competitive research also involves the role of the RTOs as bridges between their customers and the academic world. On fuel cells, for example, Mira works with Loughborough University.

While RTOs are leading operators in contract research, there is a growing acceptance of the mechanism among high-tech companies in general. Oxford Molecular, for example, started its business providing the pharmaceuticals industry with software tools to help in the development of new drugs. Its original aim was to exploit computer-aided molecular design, developing software that encapsulates the scientific knowledge of how molecules and atoms behave.

As well as supplying software systems in the increasingly fashionable area of bio-informatics to such industry leaders as Glaxo Wellcome, Oxford Molecular has moved into contract research in drug discovery. The company already has a collaborative arrangement with Yamanouchi, Japan's third largest pharmaceuticals company, and Allzyme, a UK biotechnology company.

Dr Tony Marchington, chief executive of Oxford Molecular, envisages a rapid increase in revenue from contract research from 8 per cent in 1994 to more than 30 per cent next year. It plans to do this by helping large companies to deal with the flood of ideas for new compounds thrown up by academic research.

As contract researchers, says Dr Marchington, "we have got to offer something that they do not want to source internally". The company's strategy is to assemble small "virtual teams" to develop drugs, combining the modelling expertise of Oxford Molecular with scientific skills drawn from the company's growing network of academic contacts. Such an approach can fill what Dr Marchington sees as a gap in the expertise of the large companies, the ability to demonstrate "proof of concepts showing that a scientific idea has the makings of a new pharmaceutical compound".

Just as MIRA has benefited from the new approach to purchasing by leading car companies, Dr Marchington believes Oxford Molecular can do well out of contract drug development because the pharmaceuticals companies are also changing. No longer are they small, in terms of market share, and determined to maintain expertise in every area of their activities. Dr Marchington believes the enlarged companies will "look more and more to source research and development of new chemical entities. It is a part of an overall trend of the pharmaceuticals industry maturing", he says.

"Virtual R&D" is itself a growing phenomenon, but one that has to be managed carefully, says Dr Steve Bone of business and technology consultants Scientific Generics. He warns that while virtual R&D can bring huge benefits, "companies don't seem to spend enough time up front thinking about what their technology strategy is and what should be insourced or out-sourced".

Companies in Europe have damaged their technical competence in the rush to downsize operations, says Dr Bone. In North America, by contrast, the emphasis has been on developing core competences. Companies see outsourced R&D not as a way of overcoming a shortage of capacity in-house, but of acquiring technology more quickly and of spreading risks.

Perhaps more important, says Dr Bone, outsourcing is seen as a way of internationalising R&D. "You get your R&D team to look outward rather than inwards." By contrast, he still detects in British companies signs of the "not invented here" syndrome, a reluctance to pick up ideas from outside the organisation.

TOP 50 INTERNATIONAL COMPANIES BY R&D EXPENDITURE

		Current R&D Spending £'000	% change	Sales £m	R&D % of sales	Cost of funds £'000	R&D as % of COF	1994 £'000	1993 £'000	1992 £'000
All companies composite		124,749,031	5	2,838,571	4.4	104,102,112	119.8	118,423,078	118,724,491	112,935,413
General Motors,	USA	5,402,486	19	108,739	5	4,302,257	125.6	4,531,624	3,883,743	3,810,959
Ford Motor,	USA	4,192,322	25	71,168	5.9	1,404,740	298.4	3,358,237	3,233,930	2,798,158
Siemens,	Germany	3,273,332	-3	39,843	8.2	1,100,841	297.4	3,378,633	3,464,134	3,773,287
Hitachi,	Japan	3,068,821	1	47,404	6.5	693,873	442.3	3,023,589	3,129,451	3,243,929
American Telephone & Telegraph,	USA	2,394,692	20	51,274	4.7	1,486,538	161.1	2,003,091	1,976,684	1,874,919
Daimler-Benz,	Germany	2,385,023	2	46,597	5.1	543,605	438.7	2,340,023	2,205,022	2,160,021
Matsushita Electric Industrial,	Japan	2,360,623	-1	43,383	5.4	728,971	323.8	2,383,639	2,508,957	2,610,447
International Business Machines,	USA	2,181,501	0	46,335	4.7	1,411,825	154.5	2,178,281	2,853,922	3,273,863
Fujitsu,	Japan	2,022,441	-2	20,343	9.9	459,665	440	2,060,005	2,415,752	2,446,961
Nippon Telegraph & Telephone,	Japan	1,960,113	1	43,982	4.5	2,220,027	88.3	1,939,220	1,844,804	1,791,330
Toshiba,	Japan	1,886,764	-3	29,915	6.3	760,322	248.2	1,944,609	1,946,576	1,965,794
Asea Brown Boveri,	Switzerland	1,692,000	12	21,730	7.8	656,318	257.8	1,515,522	1,482,707	1,536,777
NEC,	Japan	1,660,949	2	23,533	7.1	607,375	273.5	1,633,606	1,717,214	1,668,194
Hoechst,	Germany	1,565,565	3	23,479	6.7	767,887	203.9	1,516,065	1,367,563	1,306,812
Philips,	The Netherlands	1,547,332	4	25,900	6	565,332	273.7	1,494,698	1,364,914	1,476,588
Volkswagen,	Germany	1,530,015	21	39,653	3.9	1,147,961	133.3	1,260,012	1,305,013	1,350,019
Sony,	Japan	1,493,346	4	24,869	6	549,318	271.9	1,435,356	1,449,551	1,502,257
Hewlett-Packard,	USA	1,482,674	14	20,300	7.3	363,261	408.2	1,305,551	1,134,226	1,043,411
Ericsson Telefon,	Sweden	1,466,349	13	9,600	15.3	324,103	452.6	1,302,991	1,061,675	718,951
Bayer,	Germany	1,466,564	3	20,061	7.3	738,457	198.6	1,429,664	1,420,664	1,393,213
Alcatel Alsthom,	France	1,435,307	3	22,079	6.5	294,621	487.2	1,387,235	1,991,369	1,338,558
Motorola,	USA	1,415,045	18	17,414	8.1	289,838	488.2	1,197,990	979,647	841,169
Roche,	Switzerland	1,281,835	-2	8,240	15.6	742,255	172.7	1,305,345	1,210,747	1,118,387
Honda Motor,	Japan	1,267,562	6	24,763	5.1	299,819	422.8	1,179,966	1,244,018	1,201,019
Glaxo Wellcome,	UK	1,200,000	0	7,973	15.1	1,446,000	83	1,204,300	1,064,500	849,800
Ciba-Geigy,	Switzerland	1,111,111	-8	11,586	9.6	507,136	219.1	1,204,030	1,292,577	1,315,421
Johnson & Johnson,	USA	1,052,428	28	12,135	8.7	669,844	157.1	823,135	761,303	725,879
Renault,	France	1,040,986	3	24,242	4.3	531,292	195.9	1,015,040	909,019	815,246
Mitsubishi Electric,	Japan	1,034,429	-1	20,299	5.1	445,405	232.2	1,048,361	1,052,431	1,052,093
Northern Telecom,	Canada	1,017,003	37	6,873	14.8	174,545	582.7	744,557	594,466	762,005
Robert Bosch,	Germany	1,014,760	2	15,515	6.5	95,850	1058.7	996,759	1,035,910	984,809
Bell Canada Enterprises,	Canada	1,007,792	33	11,626	8.7	1,055,962	95.4	758,441	587,485	593,524
BASF,	Germany	939,564	9	20,803	4.5	589,268	159.4	862,298	870,488	921,789
Rhone-Poulenc,	France	929,686	6	11,523	8.1	703,205	132.2	878,858	843,952	785,217
Pfizer,	USA	929,022	27	6,454	14.4	548,112	169.5	733,865	627,592	555,970
Chrysler,	USA	914,594	9	31,947	2.9	1,154,837	79.2	839,237	792,219	678,264
American Home Products,	USA	872,705	66	8,615	10.1	1,030,411	84.7	526,272	426,825	355,822
Sandoz,	Switzerland	863,140	-6	8,532	10.1	534,029	161.6	915,197	976,210	837,390
Merck,	USA	857,529	8	10,743	8	1,079,930	79.4	792,605	755,378	715,960
General Electric,	USA	838,861	10	45,103	1.9	6,520,674	12.8	757,439	835,372	871,441
Boeing,	USA	818,050	-28	12,589	6.5	318,175	258.5	1,097,513	1,069,818	1,188,973
Procter & Gamble,	USA	808,609	19	21,534	3.8	998,325	81.1	682,061	615,741	654,553
Pharmacia & Upjohn,	USA	807,397	6	4,475	18	340,306	237.3	748,906	738,856	605,515
Fiat,	Italy	782,772	-14	26,487	3	885,775	88.4	911,881	1,055,605	1,015,005
Canon,	Japan	782,083	3	13,524	5.8	297,003	263.3	757,232	850,571	627,656
Peugeot,	France	773,881	-14	21,898	3.5	399,093	193.9	902,980	874,644	891,576
Nippondenso,	Japan	743,039	7	8,816	8.4	104,824	708.8	698,833	691,214	698,725
Societe Nationale Elf Aquitaine,	France	736,862	8	27,432	2.7	1,048,098	70.3	679,459	632,572	608,297
Mitsubishi Heavy Industries,	Japan	733,180	0	17,789	4.1	410,513	178.6	730,551	789,077	808,703
Intel,	USA	715,573	15	7,420	9.6	115,934	617.2	624,758	502,327	388,072

■ **The chemicals industry:** by Jenny Luesby

Commerce to the fore

The benefits of being several steps ahead of the competition have been re-evaluated

R&D by the chemical industry may once have been linked to grand aims such as solving global problems. Today its objective is to deliver incremental product improvements.

Scientists have been reorganised, rationalised and refocused, to link their work to the needs of customers and accelerate development. The result, claim chemical producers, is a smaller proportion of sales income delivering greater commercial gains.

The fall in the share of income spent on R&D is clear from the scoreboard. The R&D intensity of the world's leading chemical companies has fallen to 5.5 per cent, from 5.8 per cent last year – despite the inclusion in the scoreboard of smaller companies with higher spending levels.

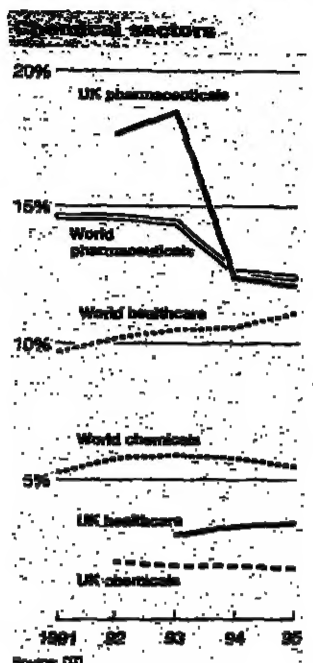
But whether this lower spend can deliver more depends on the argument that chemical companies need to be only one step ahead of their rivals to secure competitive advantage. If this is the case, abandoning programmes putting them five steps ahead in favour of cheaper schemes delivering incremental improvements over a wider product range should be beneficial.

On this basis, companies are shifting away from basic research, defined by the US Chemical Manufacturers Association as exploring "unknown facts and principles of general validity, without regard to commercial objectives".

Applied research, using known phenomena or substances to meet an objective, is also losing ground and commercial development is moving to the fore. Last year, US chemical companies spent 58.7 per cent of R&D funds on development, 32.8 per cent on applied research and 9.5 per cent on basic research.

However, even where companies agree that the function of chemical industry R&D should be commercialising existing science, views on how this is best achieved differ.

Spending at Dow Chemical, one of many producers to have reorganised its R&D operation into units tied to each business, has fallen by 36 per cent – more sharply than that of any other company. Most of this fall is due to the sale to Hoechst of its stake in drugs producer Marion Merrill Dow. But excluding MMD, the group's R&D ratio fell from 4.7 per cent to 4 per cent last year, and it aims to cut that ratio to 3 per cent, says Rick Gross, a Dow vice-president.



Source: DTI

The company has introduced state-of-the-art information systems, he says. To speed up development, business teams are being brought in as soon as a scientific advance is made and marketing teams pass on far more information about their customers' difficulties to the scientists.

But information systems do not provide sufficient communication to get the most from a company's R&D opportunities, says John Beacham, group research and technology manager for ICI. "Companies cannot just use information technology and expect to share everything," he says.

For this reason, ICI last year reversed the decision taken in the early 1980s to conduct all its R&D at business level and re-established a central R&D unit. This has given it the best of both worlds, says Mr Beacham. "It gives us the focus on customers and markets, but stitches together our technology," he says. "The central unit performs sophisticated central networking functions, and offers a critical mass of skills in developing general technologies."

ICI needs to be sure it has found a better way of employing its R&D resources than its competitors, because it spends far less. The world's eighth largest chemicals company by sales, its R&D budget is only the 25th largest, with the proportion of income that it spends on R&D ranking 50th out of the 51 international chemical companies included in the scoreboard. This is partly a reflection of product mix, since most chemical companies have a drugs arm which devotes greater levels of resources to R&D. ICI has no pharmaceutical products.

The group's R&D ratio, 1.8 per cent, also excludes its spending on technical services. "Most chemical companies include this as R&D spending," says Mr Beacham. "If ICI did, it would push the ratio up to 2.4 per cent".

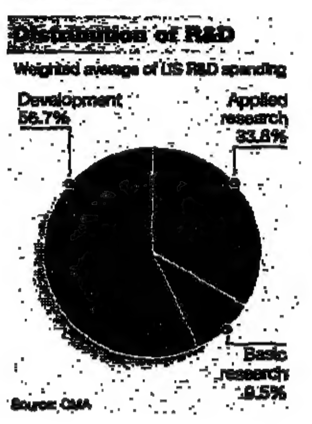
The figure is still low, however, as is the intensity of R&D among all the UK's leading chemical companies – at 1.8 per cent last year, down from 1.9 per cent in 1994.

One British producer points to the relative cost of scientists as a reason for this, with a leading researcher likely to be significantly more expensive elsewhere in Europe, and more than twice as expensive in the US or Japan.

Perhaps as significant, however, is the uniformity of the level of R&D spending by British chemical companies.

As strategists throughout the industry debate how low is too low for an R&D budget, one of the more obvious benchmarks is the level of spending by peers. As Mr Gross of Dow points out, "our aim is an R&D programme that is appropriate to our business mix, opposite the industry".

The chemicals industry remains science based, but in such a mature sector, the gains of moving much faster than the pack have been deemed insufficient to pass the test of shareholder value.



Source: CMA

■ **Indicators:** by Vanessa Houlder

Evaluation proves tricky

Innovation is hard to measure and is not always directly reflected in financial gain

The scoreboard measures spending on R&D – one of the most important inputs to innovation. But increasingly, attention is being focused on the outputs of R&D spending, as governments and businesses seek to improve the efficiency with which R&D is translated into new products and services.

The issue has been taxing the ingenuity of the Organisation for Economic Co-operation and Development which has been researching ways of improving measures of R&D outputs since the late 1970s.

"It has long been known that R&D indicators give an incomplete picture of technological change in industry," it says in a recently published report on innovation, patents and technological strategies.

Although patents are used increasingly as innovation indicators, they have serious limitations. Companies do not always take out patents to protect their innovations, either because they find the cost excessive or because they prefer to rely on industrial secrecy.

Moreover, not all inventions are necessarily patented. Software, for example, is legally protected by copyright.

One approach to overcoming the shortcomings of patent- and R&D-based statistics is the publication of innovation surveys based on questionnaires completed by companies.

The OECD considers these surveys to be particularly apt at showing the type and behaviour of firms involved in innovation and for measuring certain aspects of the innovation process. "As a valid indicator of innovation, however, such surveys still suffer from the lack of international harmonisation and standardisation," it says.

One of the reasons that patent- and R&D-based statistics are falling from favour stems from a re-evaluation of the relationship between R&D and innovation. Scientists no longer see innovation as a linear process in which basic research is inexorably converted into new products and services.

This point is made by the OECD. It notes the need to "challenge the traditional idea of R&D as the hinge linking science and innovation in a linear innovation and replace it with a more systemic concept which stresses the interactive processes at work in developing, disseminating and improving knowledge."

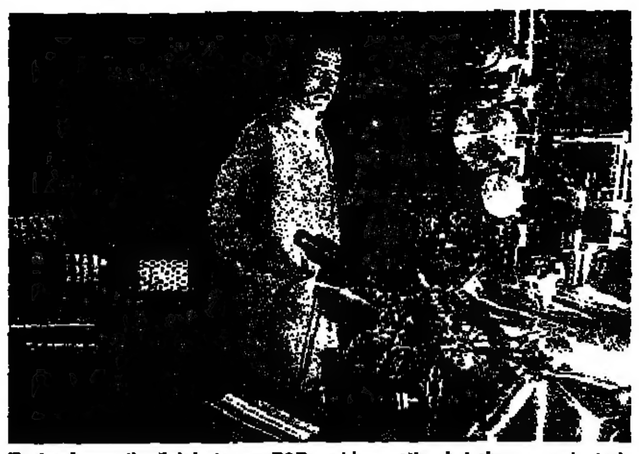
The issue was also raised at a seminar on R&D valuation organised by SmithKline Beecham last September. "The linear model has had its day and needs to be put to rest," concluded the seminar. It said that a period of R&D work might only produce innovation in the very long term and "often in a most unexpected way", said George Poste, R&D director of SmithKline Beecham.

The seminar put forward several reasons why the process of innovation is so difficult to pin down. "Successful invention need not necessarily lead to success in the marketplace; R&D departments may be functioning with wonderful efficiency and imagination, but if their work is poorly commercialised, no financial gain will accrue," it said.

"Moreover, there is the need to appreciate and benefit from technology transfer from other fields, or to spot new opportunities in existing sources of information."

Another problem is that there may be a long gap between research and a return from the market. It is also difficult to attribute a particular economic effect to a particular piece of research.

Another issue is that those doing the research are not necessarily those benefiting from it. Studies have shown that only a fraction of the benefits of inventions is captured by the company that invented them, even when patent rights exist.


Taxing issue: the link between R&D and innovation is being re-evaluated

These issues present real difficulties to companies that are attempting to quantify the results of their R&D spending.

"Companies have found it far more difficult to measure the contribution of R&D to business performance than to measure most of the other functions in the value chain," says John Marriage of PA Consulting Group.

One reason is that the value of R&D usually appears several years after the money has been spent. Another is that it is hard to define what part of a product's success is due to R&D work, as opposed to other functions such as marketing and distribution.

Some companies are prepared to take a retrospective approach to this issue. While at BP in the late 1970s, Sir John Cadogan, now director-general of the Research Councils, developed a system in which business managers were asked what contribution past R&D had made to their bottom line. "Concentrating as it did on real benefits in the bank, rather than speculations about the future, it was a powerful tool indeed," he comments.

Other companies attempt to look forward and calculate the likely returns on their current investment in R&D. Traditionally, these calculations have been based on discounting future cash flows.

But discounted cash flow techniques have limitations. They have been criticised for dealing inadequately with uncertainty and failing to capture the value of unforeseen spin-offs.

One way of overcoming these problems is by breaking up the project into a number of phases, each of which has its separate discount rate.

Another approach is the application of options pricing theory that was originally developed for valuing financial instruments.

Terry Faulkner, director of strategic planning at Eastman Kodak, is an enthusiast for this approach. "Our experience over the past few years has confirmed that the use of options pricing theory concepts brings valuable insights into the R&D valuation process," he says. He has found that an options approach often yields a substantially higher valuation than a DCF approach.

"An options thinking mindset emphasises the uncertainty of the future," says Mr Faulkner in an article in Research & Technology Management.

But even this kind of sophisticated approach to R&D evaluation may have limitations. By concentrating on numerical indicators, there is a danger that the less tangible benefits will be overlooked.

This point has been underlined by research by Luke Georghiou of the University of Manchester's science policy unit. He suggests that a more comprehensive list of potential benefits to the company needs to be drawn up, including the benefits to management practices and the organisation's capacity to absorb knowledge.

Given the complexity and controversy surrounding the measurement of R&D outputs, it is perhaps unsurprising that some companies prefer to view investing in R&D as an expression of faith in the future.

The case for this approach was made by James Niedel, R&D director of Glaxo Wellcome at last year's seminar where he argued that a pervasive sense of corporate optimism played an important role in the decision to invest in research. "If you don't invest in the future, you don't have a future," he said.

■ **The motor industry:** by John Griffiths

Burden shifts to suppliers

As outsourcing grows, components makers are taking on responsibility *for R&D costs*


Mercedes-Benz' All Activity Vehicle concept: the fragmentation of markets into niches will push up the R&D bill

There is something of a paradox in the Department of Trade and Industry's research and development spending scoreboard when it comes to the world's motor industry.

The R&D spending of most big vehicle producers is shown to be rising sharply. This should not be surprising. Vehicle building is an industry where the complexity of the product and its manufacturing processes subsume a broader spread of technologies than almost any other sector. The technologies available to it are themselves advancing at bewildering speed. Not least, sweeping changes to products and processes are being driven by proliferating environmental and safety legislation, as well as consumer preferences.

The fragmentation of vehicle markets into an ever greater number of niches – such as "lifestyle" four-wheel-drives, sports cars and multi-purpose vehicles (MPVs) – can also be expected to jack up the R&D bill, as the need for a broader model range increases and the opportunity for long production runs and their associated economies of scale diminish.

Yet a profound structural change is also going on within the industry which should reduce the vehicle makers' R&D spend: the outsourcing of an greater number of components and component systems to independent suppliers.

Not only are these suppliers – typified by Robert Bosch of Germany, Magneti Marelli of Italy and Lucas Industries (soon to be LucasVarity) of the UK – following the big vehicle makers into whichever region of the world they wish to make or sell cars. They are also being required to design and develop, as well as manufacture, these complex components. This is because even vehicle makers as large as General Motors, the world's biggest, are coming to regard their core role as being assemblers of vehicles rather than integrated manufacturers.

Thus an ever larger share of the total motor industry R&D burden is being borne by the supplier industry.

In some, but by no means all, cases this does show up on the DTI's motor industry scoreboard. Valeo, the French components group ranked 15th on the scoreboard, last year stepped up its R&D spend by 14 per cent, well ahead of its 9 per cent rise in sales, as part of its drive to secure a broader spread of international business by increasing its systems design and development capabilities.

For some companies, such a jump could correctly be interpreted as a panic response to change after a period of underinvestment in R&D. By European standards, however, Valeo has been a consistently above-average R&D investor at about 6 per cent of sales.

GKN, T&N and Lucas of the UK – each determined to be among the few dozen "global" companies into which the components industry is expected to coalesce within the next decade – also ramped up their R&D spending by significant amounts last year. However, the improvement was less impressive than their sales performance. GKN's 14 per cent increase in R&D spend, for example, trailed marginally behind a 17 per cent jump in sales and Lucas's 9 per cent rise compared with a 12 per cent sales hike.

On the face of it, last year's rise left Valeo well ahead of 10th-ranked Nippondenso, Japan's largest motor components group and among the most outward-looking of Japan's components suppliers.

But while Nippondenso's spending rose by "only" 7 per cent last year, this was despite a 1 per cent drop in sales as Japan's motor industry continued to be battered by recession and still left the R&D "spend" above 8 per cent of sales. Measured by such yardsticks, the UK motor components sector is at best an average performer by North American and west European standards, at about 2.5 to 4 per cent of sales.

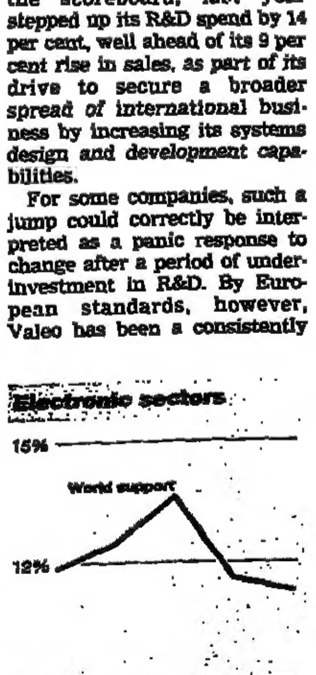
The big fluctuations showing up on this year's scoreboard for UK-based vehicle makers mostly reflect structural changes within the companies. Only Ford and the BMW-owned Rover Group have substantial R&D operations in the UK. The 19 per cent drop in Ford's UK spend last year in part reflected changes in how R&D is being shared between Ford's Dunction engineering centre in the UK and Merkenich in Germany as the "Ford 2000" globalisation programme gathers pace.

The 23 per cent jump at Rover Group is more encouraging – reflecting the more than doubling of investment at Rover planned over the next five or six years by its German parent, compared with previous investment levels under former UK owner British Aerospace. "Total investment in Rover will be at the rate of £500m to £600m a year to past the end of the decade, allowing us to undertake programmes we could not previously have contemplated," says a Rover spokesman.

Not least, it will allow Rover to develop further its engine technology, as the industry prepares to grapple with tough new exhaust emissions standards for European cars unveiled by the European Commission last month.

Such legislative pressures are not only forcing up R&D spending, but also helping forge new alliances within the industry to tackle them. Thus the planned merger between Lucas and Varity Corporation, the US diesel engine and components maker, is intended to create not only scale economies but also a combined R&D effort greater than the sum of the individual companies' parts. Lucas is a world leader in brake components, for example; Varity, through its Kelsey-Hayes subsidiary, is a leader in electronic vehicle traction control systems. Together, as a Varity spokesman said at the merger's launch, "it's a combination which could be pretty hard to beat".

Source: DTI



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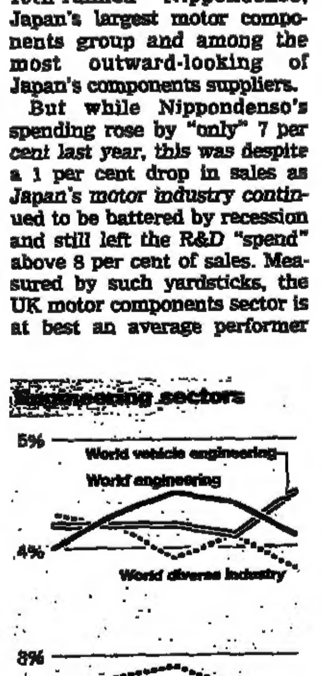

Source: DTI

4 R&D Scoreboard

■ **Financial reporting:** by Jim Kelly

How to account for the intangible

What constitutes R&D expenditure and how it should be treated in company accounts is under debate

Cable & Wireless, the UK-based telecommunications group, must be wondering what it has to do to get on the R&D Scoreboard. Its 1996 accounts do contain data, painstakingly collected from around the business, but it may not make the next scoreboard. The reasons run to the heart of the many problems surrounding R&D and financial reporting.

In 1994 Sydney O'Hara, C&W strategic development adviser, said the company would provide figures for the scoreboard. Last year he said it was taking time to agree the basis of the figures with auditors KPMG. "The profile of R&D has escalated unbelievably within the company, and there will be a figure next year," he said.

Mr O'Hara kept his promise in the 1996 accounts – which will be considered for next year's scoreboard. But David Tonkin, whose consultancy Company Reporting compiles the scoreboard, believes the methods chosen by C&W for disclosure bar the figures from inclusion. The two sides are talking about the way forward.

C&W's accounts state, within the directors' report, that "included within capital expenditure for the year is £86m of successful technical development which formed an integral part of capital projects." A further £5m was charged to operating profits to cover various costs such as "support for research institutions". C&W believes £91m is therefore its R&D figure.

Mr Tonkin says that when he read the figures presented in this fashion, he felt strongly that he was not dealing with an "R&D culture". He added: "They may have bent over backwards but it may well be they failed because the message that's coming through is that they are actually not an R&D based company."

Chris Tyler, corporate financial accountant, agrees: "Fundamentally we are an operator not a researcher." He explains that C&W is "an operator of other peoples' kit which we have to tailor to fit us and then enhance". With no research laboratories, although C&W has access to other people's, Mr Tyler had to go out and search for the R&D costs.

The basis of the C&W business is a "state of the art telecoms system". Mr Tyler asked the company's fixed asset accountants to look at the system and using criteria from the current accounting standard on R&D, SSAP 13, to identify the development element of capital expenditure.

Such criteria included: feasibility studies for new technology; design of products, services, and systems involving new technology; design, construction, and testing of pre-implementation prototypes; and the building and operating of pilot systems using new technology.

The problem is that development expenditure under SSAP 13 should be written off or, in specific cases, capitalised as an intangible asset. Mr Tyler chose the disclosure he did, after talking to auditors KPMG, because he felt the £86m was fundamentally an integral part of fixed assets – and only secondly R&D expenditure, and therefore a tangible rather than an intangible asset.

Mr Tonkin would like C&W to make it explicit that SSAP 13 was used to identify the £86m and that a note should therefore appear to the fixed assets in the company's financial statement, not in the directors' report. But Mr Tyler believes this will lead to confusion because SSAP 13 is only used in such circumstances linked to intangible assets – and there is nothing intangible about C&W's telecoms systems.

> 'No one really knows what is going on – what resources are being committed'

Mr Tonkin is also unhappy about the £5m disclosure. "This is a bit obscure. It sounds more like a gift." He explains that the objective of the R&D Scoreboard is to isolate the spend on technology which is incorporated into products – "the wealth creation for the company," as he calls it. Mr Tyler says the £5m includes "our contribution to blue sky research."

Mr Tyler believes SSAP 13 has useful definitions but there are problems applying it to companies such as C&W. He says it works well in a drugs company where research costs can be later matched against the production of pills. But C&W either buys in its R&D or develops the bought-in fixed assets of the system.

"Our R&D is all capitalised within our fixed assets," he says. And he is adamant that he cannot have the £86m as both fixed and intangible: "You can't have it in two places." Again, the two sides are in talks about what to do next year.

Considering the problem C&W had identifying R&D expenditure, it is not surprising that those whose job is to manage the creative processes of design, research and development have long been handicapped by the lack of quantitative data available. The Design Council is working on the problem – tracked by the Labour party.

Angela Dumas, research director at the council, says that work under way is focused on trying to quantify what goes on in the "fuzzy front end" of design and research – upstream of the point when product specification allows traditional management accounting techniques to start producing data on costs and benefits.

"No one really knows what is going on – what resources are being committed," she says. As a result good ideas can "bump along the bottom", bad ideas can soak up resources, and innovations applicable in other industries can remain unrealised assets. Without crushing the creative process, she wants to investigate what is really happening – and to produce data that allows it to be managed better.

Three sets of academics are helping. Professor Peter Miller of the London School of Economics is involved in a case study with a high-tech multinational, while Dundee University is involved in accounting research on the problem. And a performance measure study, to provide benchmarks, is being undertaken by Dr Nick Oliver of the Judge Institute, Cambridge.

The Design Council's attempts to get inside the "right hand brain" of companies to look at investing in design as a process is being keenly watched by Labour. A policy document on innovation, science and technology due soon will say that the competitiveness of UK companies has suffered from a "retreat from science" under the current government.

Labour believes that the kind of work being done by the Design Council into improving management accounting practices could help companies evaluate investment in research at the early stages of development. If the project yields data, Labour is likely to want it disclosed – along with other R&D expenditure – in the accounts of all UK companies.

■ **Performance by country:** by Clive Cookson

Spending varies

The international R&D scoreboard shows huge variations between companies' performance in different countries. The UK has the lowest R&D intensity – 2.5 per cent of sales – but Italy is sliding fast.

R&D spending by Italian companies has fallen by 8 per cent in each of the past two years and their R&D intensity, which was 3.9 per cent in 1993, was just 2.8 per cent last year.

Fiat, the Italian car giant, cut spending by 14 per cent last year – in contrast to the industry as a whole. This is partly a reflection of the fact that Fiat has a different investment cycle to most of its competitors but even so it is not a good sign. The other prominent Italian company cutting back on R&D is Olivetti, the electronics group, with spending down from £186m in 1993 to £175m in 1994 and £155m last year.

France is also performing poorly, with a decline of 2 per cent last year and 5 per cent in 1994. Most of the large French engineering groups are cutting R&D spending, while Bull, once the champion of the French computer industry, recorded a spectacular 31 per cent fall in 1995.

At the other extreme is Sweden, whose corporate R&D spending has been rising fast and leaped by 21 per cent in 1995. Swedish R&D intensity is now 7.3 per cent. The country's biggest spender is Ericsson, the telecommunications company, admired throughout the IT industry for its devotion to R&D; last year Ericsson spent £1.47bn on R&D, equivalent to 15.3 per cent of sales.

Swiss companies also have an excellent long-term record of maintaining R&D intensity (6.3 per cent last year). The link between the two countries is Asea Brown Boveri, the half-Swiss half-Swedish engineering group, whose spending rose by 12 per cent to £1.69bn in 1995 (ABB appears under Switzerland in the scoreboard because of its headquarters there).

Among large countries, the US performed most impressively last year, with an 11 per cent increase in R&D. This was led by the two auto giants, General Motors and Ford, well ahead of leading electronics companies, Siemens of Germany and Hitachi of Japan, at the head of the international scoreboard.

Japan, in contrast, has recorded a flat R&D expenditure for the fourth year in succession. The R&D intensity of Japanese companies has fallen from 5.2 per cent to 4.9 per cent since 1992.

R&D EXPENDITURE: RANKING OF TOP 300 UK COMPANIES

	Current R&D Spending £'000	% change	Sales £m	R&D % of sales	Cost of funds £000	R&D as % of COF	P/E Ratio	1993 £'000	1992 £'000	1991 £'000
UK: All companies composite	9,133,549	4	542,541	1.7	29,972,525	30.5		8,785,873	8,274,319	7,609,493
Glaxo Wellcome	1,200,000	0	7,973	15.1	1,446,000	83	20.7	1,204,300	1,064,500	849,600
SmithKline Beecham	653,000	2	7,011	9.3	609,000	107.4	21.1	638,000	575,000	478,000
Unilever	580,000	8	31,516	1.8	1,012,000	57.8	18.2	543,000	518,000	461,000
Zeneca	549,000	8	4,898	11.2	355,000	154.6	25.5	518,000	490,000	456,000
Shell Transport & Trading	483,000	11	65,585	0.7	3,851,000	12.5	18.1	437,000	529,000	493,000
General Electric	412,000	1	5,843	7.1	332,000	124.1	14.6	408,000	398,000	417,000
British Telecommunications	271,000	2	13,893	2	1,522,000	17.8	18.2	265,000	233,000	240,000
Rolls-Royce	205,000	-8	3,587	5.7	118,000	174.8	27	218,000	253,000	229,000
Reuters	191,000	20	2,703	7.1	163,000	117.2	25	159,000	110,000	78,500
Imperial Chemical Industries	185,000	1	10,269	1.8	382,000	48.4	14.8	184,000	177,000	189,000
ICL	149,600	-14	3,114	4.8	42,000	356.2		173,000	208,900	242,900
Siemens	132,600	8	1,289	10.3				122,800	127,000	137,000
Ford Motor	132,000	-19	5,866	2.3	122,000	108.2		162,000	76,000	88,000
British Petroleum	123,000	0	36,105	0.3	1,380,000	8.9	15.6	123,000	237,000	315,000
British Aerospace	119,000	20	5,741	2.1	127,000	93.7	29.8	99,000	168,000	151,000
BTR	114,000	0	9,778	1.2	863,000	13.2	14.2	114,000	101,000	93,000
Nortel Technology	113,580	18	9	1262	0			96,484		
Siebe	112,600	11	2,146	5.2	108,900	103.4	17.7	101,500	70,000	84,900
Lucas Industries	105,700	9	2,796	3.8	116,311	90.9		96,700	90,800	98,300
IBM	100,700	-13	4,595	2.2	113,400	88.8		115,900	132,200	131,800
Rover	97,900	23	4,476	2.2	43,900	223		79,600	82,700	81,000
Rhone-Poulenc Rorer	97,500	3	1,289	7.6	55,400	176		94,500	85,500	77,400
BOC	91,500	4	3,544	2.6	235,300	38.9	16.6	88,000	85,300	81,200
GKN	87,000	14	2,894	3	106,500	81.7	15.9	76,000	66,000	58,000
Boots	67,400	0	4,308	1.6	211,700	31.8	16.2	67,600	66,800	58,900
British Gas	66,000	-12	8,601	0.8	923,000	7.2	17.1	75,000	80,000	89,000
Racal Electronics	64,697	-2	950	6.8	30,322	213.4	19.3	66,292	72,997	79,514
Pfizer	58,474	18	159	36.8	39,433	148.3		49,521	52,166	49,559
T&N	52,200	11	2,092	2.5	71,700	72.8		47,000	42,000	34,200
Pilkington	52,000	-4	2,676	1.9	124,000	41.9	31.6	54,000	49,900	52,300
Smiths Industries	49,200	11	899	5.5	52,100	94.4	19.6	44,500	46,600	45,900
Nuclear Electric	48,000	-6	2,889	1.7	30,000	160		51,000	64,000	71,000
Burmah Castrol	47,400	12	3,049	1.6	121,000	39.2	15.3	42,300	40,000	36,800
Hanson	44,000	-10	11,184	0.4	1,785,000	2.5	11.1	49,000	20,000	26,000
Vickers	43,500	108	1,144	3.8	29,300	148.5	20.9	21,100	27,800	23,900
BAT Industries	43,000	2	23,376	0.2	1,174,000	3.7	12.8	42,000	40,000	41,000
Grand Metropolitan	43,000	0	8,025	0.5	589,000	7.3	20.5	43,000	41,000	35,000
British Nuclear Fuels	42,000	-14	1,304	3.2	83,000	50.6		49,000	64,000	50,000
Astra Pharmaceuticals	39,001	102	354	11	1,947	2003.1		19,348		
Courtaulds	37,700	-1	2,131	1.8	96,600	39.2	29.8	38,200	38,600	37,700
Motorola	36,708	52	2,965	1.2	15,317	239.7		24,155	15,902	14,293
TI	36,300	-12	1,450	2.5	88,800	40.9	21.7	41,300	49,500	38,800
Esso	36,000	-1	4,717	0.8	320,900	11.2		36,400	31,600	29,400
Asea Brown Boveri	32,030	9	1,052	3	16,506	194		29,349	24,524	
BICC	31,000	19	4,362	0.7	116,000	26.7	10.5	26,000	27,000	24,000
Roche Products	30,700	15	325	9.4	2,997	1024.4		26,700	25,700	23,300
Hewlett-Packard	29,786	10	1,707	1.7	21,882	136		27,078	19,091	14,116
Reckitt & Colman	29,400	29	2,353	1.2	155,700	18.9	16.5	22,750	19,120	15,940
Smith & Nephew	29,400	1	1,026	2.9	73,610	39.9	21.6	29,000	29,100	24,300
Tate & Lyle	29,000	-3	4,510	0.6	154,600	18.8	9.3	29,800	22,200	11,800
Johnson Matthey	28,400	15	413	6.9	33,000	86.1	19.6	24,800	21,700	20,800
Merck Sharp & Dohme	28,384	9	293	9.7	15,984	177.6		26,115	23,232	22,388
British Steel	28,000	-3	6,228	0.5	194,000	14.4	19.4	29,000	25,000	28,000
Kodak	27,200	-2	1,044	2.6	141,000	19.3		27,800	30,300	29,600
Verity Europe	25,797	36	873	3	8,485	304		18,910	18,446	19,890
BBA	25,200	-21	1,163	2.1	51,800	48.8		32,100	35,900	32,400
Rexam	25,000	39	2,391	1	163,000	15.3	11.6	18,000	6,800	5,000
National Power	25,000	4	3,953	0.6	303,000	8.3	11.7	24,000	20,000	17,000
Cookson	24,300	11	1,380	1.8	75,500	32.2	19.4	21,800	20,000	20,300
Bayer	23,600	26	869	2.7				18,900	15,100	13,100
Micro Focus	23,423	-12	77	30.4	74	31652.7		28,710	18,554	13,580
British Biotech	23,208	27	3	773.6	558	4159.1		18,332	17,771	15,171
United Biscuits	21,200	-5	3,436	0.6	106,500	19.9	16.3	22,200	19,500	17,800
Rank Xerox	21,000	-5	4,139	0.5	244,500	8.6		22,000	26,000	28,600
Amersham International	20,600	2	334	6.2	12,600	163.5	17.4	20,100	15,900	14,800
Cray Electronics	20,348	5	265	7.7	6,560	310.2	8.3	19,299	11,838	3,371
Vodafone	20,300	21	1,153	1.8	104,600	19.4	25.7	16,815	14,527	9,957
Williams	20,100	4	1,599	1.3	135,000	14.9	15.2	19,300	15,200	12,800
Bowthorpe	19,121	22	470	4.1	23,589	81.1	16.6	15,651	12,638	8,895
Cadbury Schweppes	18,000	30	4,776	0.4	305,000	5.9	19.2	13,800	12,900	11,800
Cummins Engine	17,887	6	455	3.9	3,257	542.4		16,582	7,452	6,298
De La Rue	17,200	24	747	2.3	55,100	31.2	15.8	13,900	11,100	6,800
Celltech	17,100	6	17	100.6	100	17100		16,200	14,822	11,995
Medeva	16,900	-6	256	6.6	13,000	130	17.4	17,900	11,808	5,715
RTZ	16,746	40	2,604	0.6	412,113	4.1	13.4	12,000	12,000	7,000
Unitech	16,400	16	366	4.5	12,700	129.1	19.1	13,900	13,281	12,494
Sema	16,114	16	678	2.4	9,903	162.7	25.7	13,945	14,824	13,170
English China Clays	16,100	-12	886	1.8	75,700	21.3	16.2	18,300	14,100	10,500
Scotia	16,031	38	16	100.2	288	5566.3		11,582	8,520	3,671
Carlton Communications	16,000	-19	1,580	1	100,600	15.9	16	19,648	17,322	16,714
McDonnell Information Systems	15,444	-19	147	10.5	3,350	461	9	19,175	14,944	12,860
Arjo Wiggins Appleton	14,500	7	3,566	0.4	121,200	12	7.7	13,500	13,200	14,800
Dalgety	14,500	20	4,907	0.3	87,600	16.6	12.2	12,100	10,800	10,000
Trafalgar House	13,500	-28	3,721	0.4	80,100	16.9		18,700	17,200	15,000
Morgan Crucible	13,100	7	848	1.5	56,300	23.3	17.2	12,200	13,100	12,100
BSG International	12,500	11	843	1.5	14,983	83.4	12.8	11,300	10,600	8,900
Redland	12,400	9	2,503	0.5	149,600	8.3	11.9	11,400	10,000	9,700
Chiroscience	12,051	39	5	241	3	401700		8,669	3,707	1,588
IMI	12,000	14	1,322	0.9	53,400	22.5	30	10,500	11,700	10,300
Aegis	12,000	12	3,401	0.4	9,600	125	15.2	10,700	10,400	10,500
Rank Organisation	12,000	26	2,614	0.5	249,000	4.8	15.7	9,500	7,900	10,600
Booker	11,800	-3	4,223	0.3	78,000	15.1	18.6	12,200	13,400	13,400
Blue Circle Industries	11,800	-6	1,775	0.7	155,100	7.6	15.4	12,600	8,400	8,500
Charter	11,400	-16	1,128	1	45,200	25.2	14	13,500	8,300	15,200
Tomkins	11,300	1	3,726	0.3	136,700	8.3	15.1	11,200	8,600	5,890
Laporte	11,300	9	1,068	1.1	64,400	17.5	13.6	10,400	9,800	5,100
Life Sciences International	11,101	23	205	5.4	12,721	87.3	9.2	9,027	6,005	3,407
Scottish Nuclear	11,000	-54	580	1.9	23,000	47.8		24,000	15,300	16,000
United Kingdom Atomic Energy	10,900	-36	363	3	11,100	98.2		17,100	20,584	21,256

	Current R&D Spending £'000	% change	Sales £m	R&D % of sales	Cost of funds £000	R&D as % of COF	P/E Ratio	1993 £'000	1992 £'000	1991 £'000
Hillsdown	10,500	-8	3,453	0.3	89,300	11.8	11.4	11,400	10,500	10,400
Exxon Chemical	10,292	4	492	2.1	108,924	9.4		9,873	6,348	7,351
Laird	10,200	23	888	1.1	25,500	40	14.8	8,300	8,100	7,400
Molins	10,100	25	286	3.5	9,400	107.4	13.5	8,100	6,900	6,200
APV	10,100	3	882	1.1	16,800	60.1		9,800	10,500	11,000
Meggitt	10,050	-1	356	2.8	12,782	78.6	24.6	10,144	11,034	0
Hepworth	9,300	8	766	1.2	41,500	22.4	14.4	8,600	7,900	7,700
Xenova	9,150	75	2	457.5	50	18300		5,234	5,403	4,252
Allied Domecq	9,000	-10	6,925	0.1	687,000	1.3	11.8	10,000	8,000	7,000
CE Heath	8,959	7	172	5.2	12,720	70.4		8,411	7,718	6,149
Fairey	8,926	35	196	4.6	8,881	100.5	22.8	6,574	4,444	3,132
Oxford Instruments	8,774	14	125	7	3,646	240.6	18.7	7,674	7,198	8,069
Cobham	8,700	24	228	3.8	13,000	66.9	25.8	7,000	6,600	7,800
Croda International	8,700	14	459	1.9	17,800	48.9	14.9	7,600	7,200	6,100
Avon Rubber	8,624	1	306	2.8	9,023	95.6	18.8	8,599	6,173	5,640
Eurotherm	8,600	16	195	4.4	7,220	119.4	25.6	7,400	7,522	7,558
United Utilities	8,600	10	1,012	0.9	155,100	5.5	7.9	7,800	5,400	5,700
Pock	8,485	4	144	5.9	5,202	163.1	15.6	8,179	6,492	8,677
National Grid	8,300	4	1,428	0.6	214,200	3.9		8,000	7,900	7,700
Proteus International	8,136	35	0		149	5463.4		6,465	3,939	2,332
PowerGen	8,000	-11	2,885	0.3	143,000	5.6	10	9,000	10,000	12,000
Post Office	8,000	-11	5,878	0.1	2,000	400		9,000	10,000	7,000
Albright & Wilson	8,000	0	700	1.1	29,600	28	15.9	8,039	7,818	
Allied Colloids	7,979	2	356	2.2	16,243	45.1	17.4	7,828	7,421	7,224
Caradon	7,900	-11	2,094	0.4	81,330	9.7	12.5	8,900	4,100	1,000
Sage	7,892	258	102	7.7	4,435	179.2	23.4	2,202	1,956	798
Thames Water	7,700	4	1,174	0.7	171,630	4.5	7.2	7,400	7,100	7,000
Pirelli	7,657	-22	553	1.4	15,619	49		9,757	8,673	7,779
Chubb Security	7,401	3	727	1	25,743	28.8	17.6	7,184	7,420	
Severn Trent	7,400	-11	1,076	0.7	171,900	4.3	8.6	8,300	8,200	6,400
Telemetrix	7,255	34	160	4.5	2,185	331.9	17.6	5,424	3,584	2,963
Quality Software Products	7,087	6	21	33.7	1,079	656.8	23.9	6,661	4,391	2,000
Hickson International	6,700	0	384	1.7	11,200	59.8	7.3	6,700	5,400	5,200
Logica	6,600	16	250	2.6	4,017	164.3	20.1	5,700	4,600	4,800
Orbital Mobile Communications	6,551	47	103	6.4	3,422	191.4		4,463	6,363	14,320
Domino Printing Sciences	6,404	40	106	6	3,530	181.4	15.6	4,573	4,183	3,672
Misys	6,356	49	153	4.2	7,271	87.4	11.7	4,269	2,369	1,805
Coda	6,349	27	33	19.2	4	158725	21.8	5,002	3,000	2,700
TLG	6,300	85	355	1.8	13,600	46.3	20.7	3,400		
Hoskyns	6,067	21	226	2.7	7,300	83.1		5,015	3,206	3,632
Cantab Pharmaceuticals	6,041	13	1	604.1	42	14383.3		5,343	3,466	1,512
BPB Industries	5,900	23	1,328	0.4	62,600	9.4	14.4	4,800	5,000	3,600
Sony	5,862	25	1,770	0.3	74,008	7.9		4,672	4,079	2,751
Sanderson Electronics	5,807	127	58	10	1,687	344.2	15.5	2,561	1,537	790
Scapa	5,800	5	437	1.3	26,000	22.3	16.8	5,500	5,366	5,582
Acorn Computer	5,746	51	39	14.7	320	1795.6		3,808	3,092	3,046
Texas Instruments	5,740	14	238	2.4	10,012	57.3		5,047	3,239	2,543
Psion	5,579	106	91	6.1	1,440	387.4	33.2	2,710	1,484	1,456
J Sainsbury	5,500	15	11,357	0	277,000	2	14.6	4,800	4,800	4,000
British Alcan Aluminium	5,500	17	1,085	0.5	10,400	52.9		4,700	5,900	7,000
Learmonth & Burchett Management	5,487	66	24	22.9	63	8709.5		3,300	3,123	3,222
Foxboro	5,456	67	94	5.8	3,717	146.8	13.2	3,270	331	320
Whitbread	5,400	6	2,750	0.2	155,200	3.5	17.7	5,100	4,300	4,600
Yorkshire Water	5,400	218	549	1	91,400	5.9	7.7	1,700	5,000	5,000
3M	5,146	1	641	0.8	6,241	82.5		5,083	5,419	4,493
Graseby	5,132	-8	93	5.5	5,393	95.2	12	5,446	6,064	5,714
ASTEC	5,110	32	372	1.4	4,855	105.3	17.8	3,868	3,186	2,786
Anglian Water	5,100	24	720	0.7	125,100	4	10.8	4,100	2,600	2,900
FKI	5,036	-3	799	0.6	36,548	13.8	17.6	5,193	4,890	4,451
Lonrho	5,000	67	1,966	0.3	127,000	3.9	23	3,000	4,000	5,000
Yule Catto	4,882	14	286	1.7	10,972	44.5	16.1	4,292	1,717	1,198
Babcock International	4,802	119	755	0.6	7,086	67.8		2,191	1,677	1,189
BTP	4,714	55	347	1.4	22,693	20.8	14.7	3,047	1,849	1,310
Renishaw	4,631	31	63	7.4	4,730	97.9	27.2	3,532	4,036	3,707
Norcros	4,465	5	394	1.1	13,636	32.7	14.7	4,247	4,023	3,656
EIS	4,407	10	423	1	10,436	42.2	13	4,024	3,742	2,881
Body Shop International	4,300	8	257	1.7	8,900	48.3	8.8	4,000	2,500	2,227
Cortecs International	4,300	34	8	53.8	100	4300		3,200	2,800	3,000
Glynwed International	4,300	30	1,252	0.3	42,000	10.2	13.1	3,300	3,100	3,600
Halma	4,294	17	154	2.8	6,222	69	21.7	3,676	3,161	2,781
Whatman	4,226	8	81	5.2	3,394	124.5	13.6	3,896	3,203	2,574
MAID	4,209	82	14	30.1	298	1412.4		2,319	272	309
Staveley Industries	4,200	-9	342	1.2	13,500	31.1	52.4	4,600	4,600	3,900
Scottish Hydro-Electric	4,200	110	833	0.5	63,200	6.6	9.8	2,000	1,400	600
Yorkshire Electricity	4,200	-11	1,459	0.3	267,300	1.6	10.4	4,700	2,700	
USM Texon	4,142	-6	193	2.1	10,446	39.7		4,419	4,182	
Southern Water	4,100	-5	385	1.1	61,900	6.6	8.2	4,300	6,000	5,800
MTL Instruments	4,057	36	35	11.6	871	465.8	15.6	2,974	2,239	1,611
Winchester Multimedia	4,046	3461	6		157	2577.1		113		
Howden	4,025	9	436	0.9	13,524	29.8	12.5	3,682	3,203	2,660
London International	4,000	5	318	1.3	13,000	30.8		3,800	1,900	3,000
Marley	4,000	21	714	0.6	31,700	12.6	9.7	3,300	2,000	1,600
Spirax-Sarco Engineering	3,989	10	251	1.6	14,182	28	18.7	3,616	3,360	3,146
Photo-Me International	3,928	-36	193	2	6,589	59.6	23.6	6,147	2,844	1,820
Advest	3,899	32	202	1.9	9,151	42.5	14.5	2,952		
HJ Heinz	3,844	-7	527	0.7	18,332	21		4,142	3,526	3,627
Coats Viyella	3,800	-38	2,469	0.2	120,000	3.2	11.7	6,100	8,700	7,500
Powerscreen International	3,683	77	197	1.9	7,594	48.5	10.5	2,077	2,614	2,581
Murex Diagnostics	3,602	-3	36	10	669	538.4		3,725	3,544	
Devro International	3,494	0	96	3.6	11,651	30	16.1	3,482	3,404	2,228
Bullough	3,457	28	343	1	11,163	31	13.1	2,699	2,774	2,861
ML Laboratories	3,396	52	1	339.6	109	3115.6		2,228	1,930	1,670
Whessoe	3,300	10	86	3.8	2,958	111.6		3,000		
Brent International	3,262	10	143	2.3	4,749	68.7	19.4	2,963	3,014	2,627
Expamet International	3,152	24	144	2.2	4,004	78.5	17	2,560	2,556	2,813
Wolseley	3,147	10	3,784	0.1	92,273	3.4	14	2,859	1,561	1,326
Huntleigh Technology	3,106	48	92	3.4	2,843	109.3	28.8	2,096	1,507	1,305
Paterson Zochonis	3,104	2	287	1.1	14,342	21.6	12.8	3,051	2,925	2,994
Yorkshire Chemicals	3,062	8	124	2.5	5,147	59.5	12.5	2,808	2,490	2,159
VideoLogic	3,026	10	12	25.2	217	1394.5		2,740		

	Current R&D Spending £'000	% change	Sales £m	R&D % of sales	Cost of funds £000	R&D as % of COF	P/E Ratio	1993 £'000	1992 £'000	1991 £'000
Tadpole Technology	3,024	4	24	12.6	179	1689.4		2,895	1,867	1,579
Grampian	2,953	-9	120	2.5	7,806	37.8	14.7	3,248	3,680	3,746
BWR	2,925	1	90	3.3	4,376	66.8	18.8	2,910	2,580	2,235
Weir	2,917	6	622	0.5	17,567	16.6	22.9	2,750	3,096	2,695
Powell Duffryn	2,900	12	696	0.4	25,400	11	13.3	2,600	2,100	2,200
Hunting	2,810	-35	1,128	0.2	25,100	11.2	18.6	4,308	4,651	5,076
Telspec	2,759	23	59	4.7	2,016	136.9	46	2,250	1,568	1,462
RM	2,757	8	81	3.4	1,089	253.2	17.4	2,548	2,370	4,518
Inspec	2,735	41	195	1.4	9,967	27.4	23	1,944	846	507
Vitec	2,730	23	132	2.1	8,700	31.4	18.3	2,221	1,989	2,576
Radstone Technology	2,653	31	29	9.1	780	340.1	13.7	2,029	1,862	1,913
Delta	2,600	24	1,019	0.3	40,700	6.4	13.7	2,100	1,620	1,880
Ricardo	2,538	2	86	3	3,693	68.9	19	2,489	1,551	1,015
Simon Engineering	2,500	-29	319	0.8	11,500	21.7		3,500	6,642	7,226
Kalon	2,492	608	374	0.7	30,047	8.3	12.8	352	331	336
Honeywell	2,482	7	259	1	17,956	13.8		2,309	2,403	2,234
Industrial Control Services	2,446	104	84	2.9	3,353	73	10.4	1,201	3,157	1,916
Enterprise Oil	2,400	-25	763	0.3	186,200	1.3	22.4	3,216	2,217	2,516
Courtaulds Textiles	2,300	15	1,120	0.2	28,800	8	10.6	2,009	3,009	2,900
Druck	2,300	30	39	5.9	1,189	193.4	25.3	1,775	1,692	1,707
Total Oil Great Britain	2,249	14	696	0.4	21,229	10.6		1,966	1,480	1,679
J Bibby	2,226	-6	736	0.3	19,580	11.4	22.2	2,369	2,573	2,159
Sulzer	2,223	13	152	1.5	3,072	72.4		1,953	1,794	1,370
Northumbrian Water	2,200	-29	318	0.7	48,600	4.5	9.1	3,100	1,900	1,400
Wassall	2,200	-24	973	0.2	22,300	9.9	15	2,900	2,269	2,422
Celsis International	2,185	122	1	218.5	12	18208.3		984	156	
Peptide Therapeutics	2,158	68	0		14	15400		1,282	245	21
Low & Bonar	2,146	1	431	0.5	15,501	13.8	14.4	2,126	2,041	1,843
Division	2,134	65	5	42.7	11	19400		1,291	593	239
Marnier-Swain	2,124	11	85	2.5	3,384	62.8	18.9	1,918	1,481	856
Barbour Index	2,122	152	12	17.7	1,534	138.2	17.5	842	818	148
Kenwood Appliances	2,121	32	142	1.5	6,522	32.5	13.9	1,602	1,362	516
Bernard Matthews	2,119	0	302	0.7	7,667	27.6	9.1	2,124	1,782	1,697
Microvitec	2,112	12	55	3.8	1,127	187.4	18.5	1,887	1,109	905
Kalamazoo Computer	2,027	-2	61	3.3	1,602	126.5	11.1	2,077	2,413	2,012
BTG	1,980	-5	23	8.6	910	217.6		2,090	3,520	6,290
Wagon Industrial	1,952	0	344	0.6	12,504	15.7	23.3	1,956	1,902	1,822
Virtuality	1,961	8	13	15.1	13	15084.6		1,810	1,227	505
Macro 4	1,906	-12	25	7.6	4,776	39.9	12.5	2,160	1,947	1,810
Senior Engineering	1,830	42	491	0.4	15,611	11.7	32.9	1,285	1,120	1,281
Essex & Suffolk Water	1,808	84	96	1.9	13,588	13.3		1,101	1,028	1,028
Ransomes	1,754	45	180	1	15,304	11.5		1,212	1,704	0
Oxford Molecular	1,739	70	6	29	58	2998.3		1,025	326	376
Electronic Data Processing	1,726	10	13	13.3	654	263.9	14.5	1,568	1,409	530
Fenner	1,723	10	225	0.8	6,434	26.8	21.6	1,586	1,780	1,994
Vosper Thornycroft	1,710	73	249	0.7	6,782	25.2	16	990	1,032	990
Amgen	1,702	-29	1	170.2	4	42550		2,403	4,321	3,903
Neotronics Technology	1,701	16	20	8.5	338	503.3	12.5	1,462	1,330	1,399
Hazlewood Foods	1,700	6	839	0.2	27,900	6.1	5.7	1,609	1,156	1,293
Thorn EMI	1,700	-92	4,507	0	227,100	0.7	19.9	20,600	22,500	25,800
B Elliott	1,668	12	104	1.6	2,536	65.6	14.2	1,482	1,062	1,546
CML Microsystems	1,663	37	20	8.3	1,138	146.1	11.8	1,216	1,239	1,174
Chloride	1,614	3	111	1.5	2,199	73.4	58.3	1,563	1,863	1,710
South West Water	1,600	0	286	0.6	83,500	1.9	7.3	1,600	1,200	1,000
Scottish Power	1,600	7	1,716	0.1	128,500	1.2	10.2	1,500	1,200	1,600
Wardle Storeys	1,590	-11	95	1.7	4,503	35.3	19.1	1,795	1,586	1,309
John Waddington	1,571	-29	259	0.6	11,244	14	63.3	2,209	1,868	1,924
W Canning	1,552	8	75	2.1	3,503	44.3	13.6	1,440	1,133	1,287
Henlys	1,534	645	452	0.3	9,082	16.9	18.5	206	317	383
Linx Printing Technologies	1,507	42	15	10	351	429.3	13.6	1,058	1,061	830
Jeyes	1,500	-4	117	1.3	1,907	78.7		1,558	2,036	1,383
Newman Tonks	1,500	-25	278	0.5	11,700	12.8	10.6	2,000	1,673	1,586
Servomex	1,472	10	26	5.7	914	161.1	22.5	1,341	1,353	1,071
Bad Partnership	1,468	70	87	1.7	73	2011		866		
Cornwell Parker	1,431	41	86	1.7	1,018	140.6		1,017	1,178	881
Burnfield	1,408	39	48	3.1	1,677	84	14.5	1,015	906	433
Amstrad	1,407	154	272	0.5	3,730	37.7		553	998	741
Chemring	1,406	-3	71	2	3,185	44.1	17.4	1,451	1,287	1,141
Cape	1,400	56	244	0.6	7,500	18.7	10.9	900	1,300	3,348
Haden MacLellan	1,400	17	436	0.3	4,500	31.1	22.2	1,200	800	563
Bridon	1,400	-7	334	0.4	7,812	17.9	14.9	1,500	1,400	1,100
Volex	1,395	9	166	0.8	5,965	23.4	15.4	1,274	1,136	1,001
Alvis	1,388	-15	101	1.4	3,697	37.5		1,636	1,876	1,753
Syltone	1,384	8	44	3.1	1,318	103.5	18.6	1,267	830	765
Porvair	1,334	31	40	3.3	1,645	81.1	27.1	1,022	949	695
Tunstall	1,324	-5	61	2.2	1,534	86.3	19.8	1,395	1,808	1,867
Amerada Hess	1,312	-24	765	0.2	184,325	0.7		1,734	1,236	1,984
Quadramatic	1,311	51	46	2.9	3,491	37.6	16.3	869	414	
Trace Computers	1,300	-8	20	6.5	604	215.2	18.5	1,420	1,340	1,325
David S Smith	1,300	8	1,029	0.1	32,900	4	16.9	1,200	1,300	700
Southern Electric	1,300	0	1,680	0.1	95,700	1.4	8.5	1,300	1,400	1,400
Pegasus	1,294	5	6	21.6	379	341.4	15.1	1,237	1,182	1,264
Seton Healthcare	1,283	28	85	1.5	5,499	23.3	22	1,002	880	591
First Technology	1,273	4	33	3.9	1,263	100.8	23.8	1,228	502	765
McKechnie	1,270	-10	533	0.2	19,261	6.6	21.4	1,407	1,714	1,399
TGI	1,248	-2	39	3.2	1,013	123.2	18.6	1,268	1,141	1,124
Radius	1,205	12	26	4.6	439	274.5	14.7	1,076	1,640	1,817
Kelco International	1,186	-1	58	2	15,037	7.9		1,182	1,032	
Bespak	1,135	15	67	1.7	3,548	32	13.2	991	574	788
North East Water	1,103	8	70	1.6	11,583	9.5		1,021	940	677
East Midlands Electricity	1,100	-15	1,369	0.1	283,100	0.4	25.4	1,300	400	1,400
[illegible]	1,100	22	249	0.4	10,000	11		900	800	
Scholl	1,060	-12	207	0.5	8,175	13.2		1,234	1,291	1,131
Kelsey Industries	1,076	4	63	1.7	1,342	80.2	12.9	1,031	970	874
600	1,065	-23	117	0.9	2,951	36.1	27.6	1,379	1,672	1,679
Rotork	1,061	-6	80	1.3	5,017	21.1	18.3	1,128	999	1,013
Sherwood Computer Services	1,052	33	26	4	476	221		791	196	1,100
Stoddard Sekers International	1,047	-5	61	1.7	2,159	48.5	10.6	1,098	1,044	764
Manganese Bronze	1,018	6	86	1.2	985	103.4	14.2	864	724	715
Watts Blake Bearne	1,014	6	105	1	4,675	21.7	17.5	955	1,032	1,017